

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

NEW ISSUE
FULL BOOK-ENTRY

NOT RATED
NOT BANK QUALIFIED

In the opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Special Tax Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), the interest portion of the Rental Payments paid by the City and distributed to the registered owners of the Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and Nebraska income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Certificates have not been designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. See "TAX MATTERS."

\$1,785,000
CITY OF LINCOLN, NEBRASKA
CERTIFICATES OF PARTICIPATION - LEASE RENTALS
(Series 2005)
Evidencing Proportionate Interests in Rental Payments to be Made
Pursuant to a Lease-Purchase Agreement By and Between the
City of Lincoln, Nebraska, as Lessee, and
Union Bank & Trust Company, as Lessor

Dated: Date of Delivery

Due: August 15, as shown below

The above-described Certificates of Participation (the "Certificates") are issuable as fully registered certificates and, when initially issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Purchases of beneficial ownership interests in the Certificates will be made in book-entry form only, in \$5,000 principal amounts or integral multiples thereof. Beneficial owners of the Certificates will not receive physical delivery of Certificates evidencing their ownership interest therein so long as DTC or a successor securities depository acts as the securities depository with respect to the Certificates. So long as DTC or its nominee is the registered owner of the Certificates, payment of the distributions with respect to the Certificates will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of DTC Participants. See "THE CERTIFICATES - Book-Entry System" and "APPENDIX D - BOOK-ENTRY SYSTEM."

The Certificates are being issued to finance the purchase of light poles and related equipment (collectively, the "Leased Property") for the City of Lincoln, Nebraska (the "City") and to pay the costs incident to the issuance of the Certificates. See "INTRODUCTION" and "THE LEASED PROPERTY." The Leased Property will be the subject of a Lease-Purchase Agreement (the "Lease") dated August 25, 2005 among the City, as lessee, Union Bank & Trust Company, as lessor (the "Lessor"), and Union Bank & Trust Company, as paying agent and registrar (the "Registrar"). The Certificates will be issued pursuant to the Lease in fully registered form in denominations of \$5,000 or integral multiples thereof and are payable at the principal corporate office of the Registrar. Distributions representing interest from the date of the Certificates are payable semiannually on February 15 and August 15 of each year, beginning February 15, 2006. Distributions representing principal are payable with respect to each Certificate on the following maturity dates:

<u>Maturity</u> <u>(August 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>Maturity</u> <u>(August 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>
2006	\$155,000	2.75%	2.75%	100.000%	2011	\$180,000	3.50%	3.60%	99.466%
2007	160,000	3.05	3.05	100.000	2012	185,000	3.60	3.70	99.389
2008	165,000	3.10	3.20	99.717	2013	190,000	3.70	3.80	99.316
2009	170,000	3.25	3.35	99.630	2014	200,000	3.75	3.85	99.246
2010	175,000	3.35	3.45	99.545	2015	205,000	3.85	3.95	99.181

The Certificates maturing on or after August 15, 2011 are subject to optional redemption at any time on or after August 15, 2010 as set forth herein. See "THE CERTIFICATES - Optional Redemption."

Distributions with respect to the Certificates are payable solely from basic cash rental payments (the "Rental Payments") paid by the City under the Lease. The Rental Payments are payable from the City's General Fund, which includes the City's sales tax revenues and ad valorem taxes levied by the City against all taxable property in the City. See "NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION."

The Certificates are offered when, as and if issued and are subject to the receipt of the legal opinion of Gilmore & Bell, P.C., Lincoln, Nebraska, Special Tax Counsel. Certain other legal matters will be passed upon for the City by the City Attorney. It is expected that the Certificates in definitive form will be available for delivery through DTC in New York, New York, on or about August 25, 2005.

AMERITAS INVESTMENT CORP.

Dated August 12, 2005

**CITY OF LINCOLN, NEBRASKA
CITY OFFICIALS**

Coleen J. Seng, Mayor

City Council Members

Ken Svoboda (Chair)

Jon Camp
Jonathan Cook
Robin Eschliman

Dan Marvin
Annette McRoy
Patte Newman

City Department Heads

Donald Herz	Finance Director
Marvin Krout	Planning Director
Lynn Johnson	Parks and Recreation Director
Terry Bundy	LES Administrator and CEO
Marc Wullschleger	Urban Development Director
Carol Connor	Library Director
Karl Fredrickson	Public Works and Utilities Director
Bruce Dart	Health Director
Don Taute	Personnel Director
Dana W. Roper	City Attorney
Thomas Casady	Police Chief
Mike Spadt	Fire Chief
Mike Merwick	Building and Safety Director

Peggy Watchorn, City Controller

Special Tax Counsel

Gilmore & Bell, P.C.
Lincoln, Nebraska

Lessor and Registrar

Union Bank & Trust Company
Lincoln, Nebraska

Underwriter

Ameritas Investment Corp.
Lincoln, Nebraska

No dealer, broker, sales representative or other person has been authorized by the City or the Underwriter to give any information or to make any representations with respect to the Certificates, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of such Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the City and other sources that are believed to be reliable but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Underwriter or, as to information from other sources, by the City. The Underwriter has provided the following sentence for inclusion in this Official Statement: "The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information." The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information set forth herein since the date hereof.

Copies of the Lease referred to herein in the form adopted by the City may be obtained upon request from the Underwriter.

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THE CERTIFICATES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER ANY STATE SECURITIES OR "BLUE SKY" LAWS. THE CERTIFICATES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION.

OFFICIAL STATEMENT

\$1,785,000

**CITY OF LINCOLN, NEBRASKA
CERTIFICATES OF PARTICIPATION - LEASE RENTALS
(Series 2005)**

**Evidencing Proportionate Interests in Rental Payments to be Made
Pursuant to a Lease-Purchase Agreement By and Between the
City of Lincoln, Nebraska, as Lessee, and
Union Bank & Trust Company, as Lessor**

INTRODUCTION

This Official Statement, including the preceding pages and appendices hereto, is furnished in connection with the offering of \$1,785,000 aggregate principal amount of City of Lincoln, Nebraska Certificates of Participation - Lease Rentals (Series 2005), dated the date of delivery thereof (the **"Certificates"**). The Certificates represent direct and proportionate interests of the registered owners thereof (the **"Registered Owners"**) in basic cash rental payments (the **"Rental Payments"**) to be made by the City of Lincoln, Nebraska (the **"City"**) pursuant to a Lease-Purchase Agreement dated August 25, 2005 (the **"Lease"**) among the City, as lessee, Union Bank & Trust Company, as lessor (the **"Lessor"**), and Union Bank & Trust Company, as registrar and paying agent (the **"Registrar"**). The net proceeds received from the sale of the Certificates will be used to finance the City's purchase of new light poles and related equipment (collectively, the **"Leased Property"**) needed to adequately light certain of the City's streets and provide for the continued safety and welfare of its residents. Pursuant to the Lease, the City is required to make Rental Payments that comprise the principal and interest to be distributed (the **"Distributions"**) to the Registered Owners. See **"SECURITY," "ESTIMATED SOURCES AND USES OF FUNDS," "THE CERTIFICATES," "NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION,"** and **"APPENDIX B - SUMMARY OF CERTAIN PROVISIONS OF THE LEASE."** Distributions payable with respect to the Certificates are payable solely from the Rental Payments, which are general obligations of the City, and from certain money held by the Registrar under the Lease.

The net proceeds received from the sale of the Certificates will be deposited into the Acquisition Fund created by the Lease and used, together with the investment earnings thereon, to pay (a) the costs of acquiring the Leased Property, including the costs of executing and delivering the Lease, and (b) the costs of issuing the Certificates.

Descriptions of and references to the Certificates, the transaction documents, the transaction participants and related matters do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the complete texts thereof, copies of such documents being available for inspection at the offices of the Underwriter.

THE LEASED PROPERTY

The City will use the proceeds of the Certificates to purchase and install light poles and related equipment, such as light fixtures, wiring, and other items necessary to complete the installation of new street lights in newly developed residential and commercial areas as well as replace, rebuild and relocate street lights in established areas.

SECURITY

The City has contracted in the Lease to pay the Rental Payments from which the Distributions will be made, which Rental Payments are general obligations of the City payable from the City's General Fund. The City's General Fund includes sales tax revenue together with ad valorem taxes which the City is authorized to levy, subject to certain budget and levy limitations, in amounts sufficient to make the Rental Payments. In the Lease, the City has covenanted that the Rental Payments and any additional rent payable under the Lease do not exceed any limitation imposed by law, and that the Rental Payments are not such as may reasonably be expected to require the City to levy taxes in excess of any levy or budget limitation. The City shall continue to be responsible to raise funds to pay and to take all actions required to provide funds to make the Rental Payments required in the Lease from any power and source lawfully available. The City has further covenanted and agreed that throughout the term of the Lease it will observe all budget and spending limitations now or hereafter imposed by law in such a manner that a sufficient portion of its tax levy or other money shall be lawfully available to pay the Rental Payments and any additional rent due under the Lease. See **"NEBRASKA LAW RELATED TO BUDGETS AND TAXATION"** and **"APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEASE."**

NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION

In recent years, the Nebraska Legislature (the **"Legislature"**) has enacted and amended legislation intended to reduce the level of property taxation and political subdivision expenditures in the State of Nebraska (the **"State"**). The two statutory sections of principal importance are Section 13-519, Reissue Revised Statutes of Nebraska, as amended (as enacted in 1996 and amended in 1998, 2001, 2002, 2003, and 2005, **"Section 13-519"**), which provides for an overall limitation on general fund budget expenditures for all governmental units within the State, and Section 77-3442, Reissue Revised Statutes of Nebraska, as amended (as enacted in 1996 and amended each year from 1997 through 2005, **"Section 77-3442"**), which reduces the rate of taxation for general property taxes authorized for all governmental units within the State.

Section 13-519 provides that for all fiscal years beginning on or after July 1, 1998, no governmental unit (including the City) may adopt a budget containing a total of budgeted restricted funds more than the last prior year's total of budgeted restricted funds plus allowable growth, plus a basic allowable growth percentage (initially 2½% until adjusted by the Legislature). Restricted funds generally include property taxes, excluding any amounts refunded to taxpayers, payments in lieu of property taxes, local option sales taxes, State aid, transfers of surpluses from any user fee, permit fee, or regulatory fee if the fee surplus is transferred to fund a service or function not directly related to the fee and the costs of the activity funded from the fee, any funds excluded from restricted funds for the prior year because they were budgeted for capital improvements but which were not spent and are not expected to be spent for capital improvements, and any excess tax collections returned to the county by a governmental unit as a result of overpayment due to clerical error or mistake. Allowable growth includes the percentage increase in taxable valuation in excess of the base limitation established under Section 77-3446, Reissue Revised

Statutes of Nebraska, as amended, if any, due to improvements to real property as a result of new construction, additions to existing buildings, any improvements to real property which increase the value of such property and any increase in valuation due to annexation and any personal property valuation over the prior year. Such budget limitations may be exceeded by up to an additional 1% upon the affirmative vote of at least 75% of the governing body of the governmental unit, and larger increases are permitted with the approval of a majority of legal voters voting on the issue of such increase at a special election held for such purposes.

Under Section 77-3442, the rates for levying property taxes are limited for each type of governmental unit in the State. The rate for cities is no more than 50¢ per \$100 of taxable valuation, except that 5¢ per \$100 of taxable valuation of property subject to the levy may only be levied to provide financing for a city's share of revenue required under an agreement executed pursuant to the Interlocal Cooperation Act, Chapter 13, Article 8, Reissue Revised Statutes of Nebraska, as amended, or the Joint Public Agency Act, Chapter 13, Article 25, Reissue Revised Statutes of Nebraska, as amended. A political subdivision, other than a Class I school district, may exceed the levy limitations provided in Section 77-3442 or a final levy allocation determination as provided in Section 77-3443 by an amount not to exceed a maximum levy approved by a majority of registered voters. The limitations of Section 13-519 do not apply to restricted funds pledged to retire bonded indebtedness, and the limitations of Section 77-3442 do not apply to property taxes levied for bonded indebtedness approved according to law and secured by a levy on property. The City's total levy (excluding bond levy) for the current fiscal year is \$0.2527, which is expected to produce \$29,880,926 in collected taxes.

ESTIMATED SOURCES AND USES OF FUNDS

Sources of Funds:

Certificate Proceeds	\$1,785,000.00
Less: Net Original Issue Discount	<u>(8,470.30)</u>
Total Sources of Funds	<u>\$1,776,529.70</u>

Applications of Funds:

Project Costs	\$1,752,927.20
Costs of Issuance*	<u>23,602.50</u>
Total Applications of Funds	<u>\$1,776,529.70</u>

*Includes underwriter's discount, legal fees, printing expenses and other miscellaneous expenses.

THE CERTIFICATES

General

The Registered Owner of each Certificate is entitled to receive Distributions on February 15 and August 15 of each year (the "**Distribution Dates**"), commencing February 15, 2006, until the date of final maturity or earlier redemption of such Certificate. The total amount of Distributions to be made with respect to each Certificate shall be equal to the principal amount thereof plus interest calculated with respect to such principal amount, on the basis of a 360-day year consisting of twelve, 30-day months, at a

rate equal to the relevant interest rate set forth on the cover hereof. Interest on the principal amount of each Certificate shall be included in Distributions made on each Distribution Date. The entire principal amount of each Certificate shall be included in the final Distribution made on the maturity date or upon earlier redemption.

The Certificates will be issued in fully registered form in denominations of \$5,000 each or integral multiples thereof. Certificates initially delivered under the Lease shall be dated the date of delivery thereof. Certificates issued in exchange for Certificates shall be dated as of the date of such exchange. Interest shall be calculated from the date of the Certificate or from the last Distribution Date to which interest shall have been paid.

Distributions, other than the final Distribution, shall be paid on a Distribution Date (or if any such Distribution Date is not a business day of the Registrar, then on the business day next succeeding such Distribution Date) by check or draft mailed by the Registrar on such Distribution Date to the Registered Owner thereof as of the close of business on the Record Date (hereinafter defined), directed to the address appearing on the Certificate register maintained by the Registrar. **“Record Date”** means, with respect to each Distribution, the last day of the month preceding the month in which the Distribution Date for such Distribution falls. Payment of the final Distribution with respect to each Certificate shall be made only upon presentation and surrender of such Certificate to the Registrar or any successor Registrar at its principal corporate office.

Book-Entry System

General. The Depository Trust Company (**“DTC”**), New York, New York, will act as securities depository for the Certificates. The ownership of one fully registered Certificate for each maturity, as set forth on the cover of this Official Statement, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as the nominee for DTC. Ownership interests in the Certificates will be available to purchasers only through a book-entry system maintained by DTC (the **“Book-Entry System”**). A description of DTC, the Book-Entry System and definitions of initially capitalized terms used herein are found in **“APPENDIX D - BOOK-ENTRY SYSTEM”** to this Official Statement.

Risk Factors. Beneficial Owners of the Certificates may experience some delay in their receipt of distributions of the principal or redemption price of and interest on the Certificates because such distributions will be forwarded by the Registrar to DTC, credited by DTC to its Direct Participants, and then credited to the accounts of the Beneficial Owners either directly or indirectly through Indirect Participants.

Because transactions in the Certificates can only be effected through DTC, DTC Participants and certain banks, the ability of a Beneficial Owner to pledge Certificates to persons or entities that do not participate in the Book-Entry System, or otherwise to take actions in respect of such Certificates, may be limited due to the lack of physical certificates. Beneficial Owners will not be recognized by the Registrar as registered owners for purposes of the Ordinance, and Beneficial Owners will be permitted to exercise the rights of registered owners only indirectly through DTC and DTC Participants.

Transfer and Exchange

The Certificates, upon surrender thereof to the Registrar together with a written instrument of transfer satisfactory to the Registrar, duly executed by the Registered Owner or his or her duly authorized attorney, may, at the option of the Registered Owner thereof, be exchanged for an equal aggregate principal amount of Certificates in registered form of the same series, rate of interest, maturity and of any other authorized denomination. In all cases in which the privilege of exchanging or transferring the

Certificates is exercised, the City shall execute and the Registrar shall deliver the Certificates in accordance with the Lease. For every such exchange or transfer of Certificates, the Registrar shall require the payment by the Registered Owner requesting such transfer or exchange of any tax or other governmental charges payable with respect thereto and may charge a sum not exceeding the actual cost for each new Certificate. No exchange or transfer of any Certificate shall be required to be made during the 15 days next preceding the date of the first mailing of notice of redemption in the case of a proposed redemption of the Certificates.

The foregoing procedures do not apply to Beneficial Owners of the Certificates, whose rights will be governed by the procedures described under **“THE CERTIFICATES - Book-Entry System”** and in **“APPENDIX D - BOOK ENTRY SYSTEM”** so long as the Certificates are held in book-entry form.

Optional Redemption

Certificates maturing on or prior to August 15, 2010 are not subject to redemption prior to their stated maturities. Certificates maturing on or after August 15, 2011 are subject to redemption prior to maturity at the option of the City, in whole or in part, at any time on or after August 15, 2010, in such principal amounts and from such maturity or maturities as the City shall specify and by lot in integral multiples of \$5,000 within a maturity at a redemption price equal to 100% of the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

Notice of Redemption

At least 30 days before the redemption date of any Certificates to be redeemed, the Registrar will cause a notice of any such redemption to be mailed by first-class mail, postage prepaid, to all Registered Owners of the Certificates to be redeemed, but failure to mail any such notice will not affect the validity of the proceedings for such redemption.

CONTINUING DISCLOSURE

The City has determined that no financial or operating data concerning the Lessor is material to an evaluation of the offering of the Certificates or to any decision to purchase, hold or sell the Certificates, and the City will not provide any such information. The City has no responsibility to any person with respect to the provision of any information about the Lessor.

The City has entered into an undertaking (the **“Undertaking”**) for the benefit of the Registered Owners of the Certificates to send certain financial information and operating data pertaining to the City to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Securities and Exchange Commission Rule 15c2-12(b)(5) (the **“Rule”**). See **“APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE.”**

A failure by the City to comply with the Undertaking will not constitute a default under the Lease, although the Registered Owners will have available all equitable and legal remedies with which to force the City to comply with the Rule. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Certificates in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Certificates and their market price.

The City is in compliance with each prior Undertaking made by it pursuant to the Rule.

RISK FACTORS

The Certificates are payable from ad valorem taxes levied upon all the taxable property in the City. The following items, among others, however, should be considered by potential investors:

Limitation of Rights upon Insolvency. The United States Bankruptcy Code enables debtors, including municipalities, which are insolvent to obtain relief through a petition and plan that may result in the modification or delay of payments to creditors, including the Registered Owners of the Certificates. In the event of any insolvency upon the part of the City, the Registered Owners of the Certificates would have a security interest in the Leased Property. However, in the event the Leased Property is repossessed, there can be no assurance that the Leased Property can be leased, sold or otherwise disposed of for a net amount equal to the then outstanding aggregate principal amount of the Certificates and accrued interest thereon to the date of redemption. The extent to which the exceptions from limitations upon overall tax rates provided for in existing legislation (which are discussed in the following paragraph) might enable the Registered Owners of the Certificates to be treated as a separate class or otherwise be given priority over other unsecured claimants is a matter subject to future determinations by State and federal courts interpreting and applying State law and the United States Bankruptcy Code. Procedures under the Bankruptcy Code or other insolvency laws could result in delays in payment and modifications of payment rights. The State has by statute authorized its political subdivisions to seek relief under the United States Bankruptcy Code.

Nebraska Developments Related to Taxation. The Legislature has from time to time enacted legislation intended to reduce the level of property taxation in the State. See **“NEBRASKA LAWS RELATED TO BUDGETS AND TAXATION.”**

LITIGATION

In the opinion of the City Attorney there is no litigation of any nature now pending or, to the knowledge of the City, threatened, restraining or enjoining the execution and delivery of the Lease, or the issuance, sale, execution or delivery of the Certificates, or in any way contesting or affecting the validity of such documents or the Certificates or any proceedings of the City taken with respect thereto.

TAX MATTERS

Federal and Nebraska Tax Exemption. In the opinion of Gilmore & Bell, P.C., Special Tax Counsel, under existing law, the interest portion of each Rental Payment paid by the City and distributed to the registered owners of the Certificates (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and State income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth in this paragraph are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the **“Code”**), that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal and State income tax purposes. The City has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Certificates in gross income for federal and State

income tax purposes retroactive to the date of issuance of the Certificates. The Certificates have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

Original Issue Discount Certificates. In the opinion of Special Tax Counsel, subject to the conditions set forth above, the original issue discount in the selling price of each Certificate maturing in the years 2008 to 2015, inclusive, purchased in the original offering at a price less than the par amount thereof (hereinafter referred to as the “**OID Certificates**”), to the extent properly allocable to each owner of such Certificate, is excludable from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of an OID Certificate over the initial offering price to the public (excluding underwriters and intermediaries) at which price a substantial amount of the OID Certificates were sold. Under Section 1288 of the Code, original issue discount on tax-exempt obligations accrues on a compound basis. For an owner who acquires an OID Certificate in this offering, the amount of original issue discount that accrues during any accrual period generally equals (a) the issue price of such OID Certificate plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (b) the yield to maturity on such OID Certificate (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (c) any interest payable on such OID Certificate during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such OID Certificate. Any gain realized by an owner from a sale, exchange, payment or redemption of an OID Certificate would be treated as gain from the sale or exchange of such Bond. Owners of OID Certificates should consult with their individual tax advisors to determine whether the application of the proposed original issue discount federal regulations will require them to include, for State and local income tax purposes, an amount of interest on the OID Certificates as income even though no corresponding cash interest payment is actually received during the tax year.

Other Tax Consequences.

Prospective purchasers of the Certificates should be aware that there may be tax consequences of purchasing the Certificates other than those discussed above, including the following:

- (1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Certificates or, in the case of a financial institution, that portion of such institution’s interest expense allocable to interest on the Certificates;
- (2) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Certificates;
- (3) interest on the Certificates earned by certain foreign corporations doing business in the United States of America could be subject to a branch profits tax imposed by Section 884 of the Code;
- (4) passive investment income, including interest on the Certificates, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; and
- (5) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Certificates.

Special Tax Counsel expresses no opinion regarding these tax consequences. Purchasers of Certificates should consult their own tax advisors as to the applicability of these tax consequences.

LEGAL MATTERS

All legal matters incidental to the authorization, issuance, sale and validity of the Certificates are subject to the approval of Special Tax Counsel. Certain other legal matters will be passed upon for the City by the City Attorney.

UNDERWRITING

Subject to certain conditions precedent, the Underwriter has agreed to purchase all of the Certificates for reoffering to the public. The Certificates are being offered by the Underwriter at an aggregate purchase price equal to the par amount thereof, less net original issue discount in the amount of \$8,470.30, and less an underwriting discount of \$11,602.50. In connection with its underwriting of the Certificates, the Underwriter has temporarily terminated its financial advisory relationship with the City.

The Underwriter intends to offer the Certificates to the public initially at the offering prices set forth on the cover of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter may offer and sell the Certificates to certain dealers (including dealers depositing Certificates into investment trusts) and others at prices lower than the offering prices set forth on the cover of this Official Statement.

INDEPENDENT AUDITORS

The financial statements and schedules of the City for the year ended August 31, 2004, included in “**APPENDIX A-2 – FINANCIAL STATEMENTS**” to this Official Statement, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein.

MISCELLANEOUS

All estimates and assumptions herein have been made on the basis of the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are current or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The information set forth herein, and that which follows in the attached appendices, shall not be construed as representing all of the conditions affecting the City or the Certificates.

This Official Statement is issued by the City.

CITY OF LINCOLN, NEBRASKA

By: /s/ Don Herz
Don Herz, Finance Director

APPENDIX A-1

CITY OF LINCOLN, NEBRASKA

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THE CITY OF LINCOLN

General

Lincoln, the capital of Nebraska, is located in southeastern Nebraska near the center of population of the state. The City was originally incorporated in 1869. It is approximately midway between Chicago and Denver. It has an area of 79.61 square miles, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state governmental and educational activities. It is currently one of the fastest growing non-Sunbelt cities in the U.S. and one of the fastest growing metro areas in the Midwest.

Population

The 1960 population of the City was 128,521; the 1970 population was 149,510; the 1980 population was 171,932; the 1990 population was 191,972; and the 2000 population was 225,588, a 17.5 percent increase over the 1990 count. The 2000 count represents approximately 90 percent of the population of Lancaster County, the county in which the City is located. The estimated 2004 population is 238,750.

City Government

The City, operating under a home rule charter, has a mayor-council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of seven members. Three are elected at large and four by district on a nonpartisan basis for a term of four years. The administration of City government is performed under the direction of the Mayor by administrative departments.

City government has a broad range of responsibilities, including electric, water, and sanitary sewer systems, and an impressive park and playground system of over 5,891 acres maintained for public use, eleven public swimming pools, and five public golf courses. The City has cooperated actively with the county government in several joint governmental buildings, and in other specific areas of responsibility, including health, planning, civil defense, data processing, tax collection, parks, and jail facilities. There are cooperative agreements with the United States government on parks and flood control, with the University of Nebraska on planning and property transfer, with the area Watershed District on flood control, and with the Lincoln School District on recreation.

Transportation

The Lincoln metropolitan area is served by Interstate 80, U.S. Routes 6, 34, and 77 and State Highway 2.

Scheduled air service is provided by United Express, American Eagle, and Northwest Airlink. The City's modern airport has three runways (one of which is 12,900 feet in length) which can accommodate any type of modern aircraft.

Railroad transportation facilities include those of Burlington Northern & Santa Fe, Union Pacific, and AMTRAK, and bus transportation is furnished by one carrier.

Government Center

The State Capitol, an architectural achievement located in Lincoln, is considered one of the most impressive in all the 50 states. Other state governmental facilities in the City include the Nebraska Educational Telecommunications facility, the Nebraska Game and Parks Commission headquarters, the Lincoln Regional Center (state hospital), the Nebraska State Fair Park, and the Nebraska Penal Complex.

Federal agencies in Lincoln include regional offices of the U.S. Department of Agriculture (Mid-West Regional Technical Service Center), the Immigration & Naturalization Service and the Veterans Administration, as well as the state offices of other federal agencies. There is also a U.S. Veterans Medical Facility.

Lancaster County offices are also located in Lincoln, the county seat.

Education

The University of Nebraska, with approximately 21,792 students, Nebraska Wesleyan University, with approximately 1,500 students, Union College with approximately 937 students, and Southeast Community College, with a number of facilities for both full-time and part-time occupational training, are in the City of Lincoln. The City's modern and progressive school system, with an enrollment of over 32,270 is served by 6 senior high schools, 11 middle schools, and 36 elementary schools. There are also 32 private and parochial schools in the City with an enrollment of approximately 6,680 students.

Building Permits and Property Values

LAST TEN YEARS								
FISCAL YEAR	COMMERCIAL 1 CONSTRUCTION		RESIDENTIAL 1 CONSTRUCTION		PROPERTY VALUE 2			TOTALS
	# PERMITS	VALUE	# PERMITS	VALUE	COMMERCIAL	RESIDENTIAL		
2004	1,061	\$ 258,670,339	3,846	\$ 321,126,701	\$ 3,694,097,147	\$ 9,444,419,079	\$	13,138,516,226
2003	1,036	269,298,229	3,913	315,666,242	3,598,787,015	8,402,403,364		12,001,190,379
2002	1,013	245,476,386	3,405	262,293,941	3,094,988,486	7,255,640,292		10,350,628,778
2001	1,017	215,856,679	3,212	231,390,626	2,855,200,333	7,048,688,380		9,903,888,713
2000	1,069	181,983,107	3,385	225,622,611	2,540,905,431	6,273,610,610		8,814,516,041
1999	1,148	186,569,754	3,235	206,065,342	2,356,367,014	6,067,493,586		8,423,860,600
1998	1,093	119,532,867	3,109	185,894,741	2,132,780,337	5,726,511,673		7,859,292,010
1997	1,107	90,599,429	3,284	191,975,903	1,986,422,642	4,863,604,491		6,850,027,133
1996	1,212	148,033,633	2,976	167,561,114	1,840,136,792	4,676,645,258		6,516,782,050
1995	1,140	110,994,400	2,739	146,598,151	1,734,716,053	4,508,422,380		6,243,138,433

¹ City of Lincoln, Building and Safety Department.

² Lancaster County Assessor.

Police and Fire Protection

Lincoln has fourteen fire stations manned by 244 firefighters and two police stations with 303 police officers.

City Employee Information

For the 2004-2005 fiscal year, contracts have been signed with all of our unions. Unions include: the Lincoln Police Union (LPU) representing police officers; the International Association of Firefighters (IAF) representing firefighters, the Amalgamated Transit Union (ATU) representing transit workers, the National Association of Government Employees (NAGE) representing labor, trades, and clerical personnel, and the City Employees Association (CEA) representing supervisory, highly technical, and professional personnel. The LPU, CEA and NAGE contracts expire at the end of August, 2005; the ATU contract expires at the end of August, 2006; and the IAF contract expires at the end of August, 2008.

Since the inception of labor contracts in 1970, the City of Lincoln has been able to handle its labor relations in such a manner as to avoid interruptions, although it has been necessary to use the facilities of the Nebraska Commission of Industrial Relations on issues involving the International Association of Firefighters, International Brotherhood of Police Officers, and the union representing labor, trades, and clerical personnel.

Industrial and Business Activity

The industrial development statutes permit Nebraska counties and municipalities to issue revenue bonds to acquire sites and construct buildings for lease to industry seeking expansion and relocation. In addition to land and building costs, costs such as grading, utility lines, trackage, etc., may be included in the total cost financed by the bond issue.

Currently, there are more than 200 firms representing over 120 types of manufacturing, evidence of Lincoln's diversified industrial interests. These include printing and publishing, metal fabrication firms, grain storage and feed manufacturers, planing mills, fire protection systems, pharmaceuticals, electrical and electronic goods and many others. Lincoln is the home office of 20 insurance companies, whose combined assets are over \$2 billion. The financial interests of Lincoln are served by 15 banks with over \$9 billion in total assets and 7 Savings & Loans with over \$7 billion in total assets.

Lincoln is proud to have some of the nation's leading industrial companies as local employers, including Goodyear Tire and Rubber Company, Burlington Northern Railroad, Archer-Daniels-Midlands Company, Kawasaki Motors Corporation USA, and Square D.

SELECTED ECONOMIC INDICATORS

LINCOLN SMSA (LANCASTER COUNTY) NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT

	JUNE 30, 2004		DECEMBER 31, 2004	
	Number Employed	Percent of Total	Number Employed	Percent of Total
Industry Manufacturing:				
Durable Goods	7,515	4.6	7,425	4.5
Nondurable Goods	6,944	4.3	6,873	4.2
Total Industry Manufacturing	14,459	8.9	14,298	8.7
Nonmanufacturing:				
Natural Resource & Construction	8,961	5.5	8,079	4.9
Transportation, Communications & Utilities	6,691	4.1	6,648	4.0
Wholesale Trade	4,033	2.5	3,780	2.3
Retail Trade	16,701	10.3	17,849	10.9
Information	3,832	2.6	4,038	2.7
Finance, Insurance & Real Estate	11,331	7.0	11,439	7.0
Services (except domestic)	60,789	37.5	61,293	37.3
Government	35,321	21.8	36,899	22.5
Total Nonmanufacturing	147,659	91.3	150,025	91.5
TOTAL	162,118	100.0	164,323	100.0

LINCOLN SMSA (LANCASTER COUNTY LABOR FORCE DATA 1995-2004) (For the Calendar Year Indicated)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Civilian Labor Force	136,014	137,967	142,807	142,918	142,384	150,239	150,846	153,021	156,940	158,444
Unemployment	3,060	3,327	2,494	3,208	3,397	3,542	4,209	5,007	5,841	5,346
Percent of Labor Force	2.2	2.4	1.7	2.2	2.4	2.4	2.8	3.3	3.7	3.4
Employment	132,954	134,640	140,313	139,710	138,987	146,697	146,636	148,013	151,100	153,098

STATE OF NEBRASKA

Percent of Labor Force										
Unemployment	2.6	2.7	2.3	2.7	2.9	2.7	3.1	3.6	3.8	3.8

Source: State of Nebraska, Department of Labor

**DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

<u>Year</u>	<u>Population 1</u>	<u>Per Capita Income 2</u>	<u>School Enrollment 3</u>
2004	238,750	\$	32,270
2003	235,565		31,889
2002	231,800	30,192	31,867
2001	225,588	29,383	31,581
2000	218,497	28,752	31,354
1999	217,537	28,493	31,052
1998	215,000	27,487	31,000
1997	209,192	24,602	30,924
1996	206,100	23,591	30,779
1995	203,076	22,446	30,693

Sources:

1 Lincoln/Lancaster Planning Department.

2 University of Nebraska Bureau of Business Research - U.S. Dept. of Commerce, Bureau of Economic Analysis. Per Capita Income for 2003 and 2004 is unavailable.

3 Lincoln Public Schools.

Median age from the 2000 census was 31.3. Education statistics per the 2000 Census indicate that 90.2% of the population 25 years and older has a high school degree or greater with 33% of the same population holding a Bachelor's degree or greater.

**LINCOLN UTILITY CUSTOMERS
LAST TEN YEARS**

<u>Year</u>	<u>Water Customers</u>	<u>Gas Customers</u>	<u>Electricity Customers</u>
2004	73,059	91,046	121,508
2003	72,260	89,642	119,456
2002	69,704	89,085	116,974
2001	68,187	87,749	114,388
2000	66,956	86,501	112,817
1999	65,823	85,156	110,524
1998	64,423	80,770	107,701
1997	63,905	79,490	105,970
1996	62,828	78,488	103,603
1995	61,500	77,470	101,277

Source: Indicated Utility Companies

SELECTED FINANCIAL STATISTICS

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION ¹ LAST TEN FISCAL YEARS

Fiscal Year	General Government	Public Safety	Streets And Highways	Culture And Recreation	Economic Opportunity	Health And Welfare	Mass ² Transit	Debt Service	Totals
2004	\$ 30,884,544	55,272,920	13,633,902	22,298,283	14,728,510	17,068,105	10,525,090	7,914,521	172,325,875
2003	28,938,852	50,933,285	12,317,663	19,918,793	16,469,645	15,706,918	7,996,019	8,507,223	160,788,398
2002	27,237,134	49,913,169	10,833,055	16,974,798	14,017,601	15,513,515	12,691,837	7,411,878	154,592,987
2001	23,821,580	48,122,074	11,175,059	14,806,760	12,559,336	14,232,879	-	7,742,690	132,460,378
2000	23,529,495	44,042,882	9,039,840	13,958,414	11,204,029	12,589,907	-	7,924,295	122,288,862
1999	21,891,174	41,555,922	9,406,531	13,254,994	10,215,261	11,226,029	-	6,937,983	114,487,894
1998	30,170,768	41,140,827	8,992,439	13,111,328	12,009,990	10,979,131	-	7,317,239	123,721,722
1997	17,791,275	35,073,010	10,348,129	12,655,548	8,581,741	9,491,687	-	7,807,532	101,748,922
1996	21,642,981	35,208,168	8,204,830	12,475,318	8,638,263	8,874,148	-	7,468,367	102,512,075
1995	19,324,778	32,268,654	7,707,436	11,546,106	9,027,752	7,838,386	-	7,161,326	94,874,438

¹ Includes General, Special Revenue, and Debt Service Funds.

² StarTran added as a Special Revenue Fund in 2002.

GENERAL REVENUES BY SOURCE ¹ LAST TEN FISCAL YEARS

Fiscal Year	Taxes And Special Assessment	Inter-Governmental	Permits And Fees	Reimbursement For Services	Investment Earnings	Other	Totals
2004	\$ 107,138,062	58,198,328	15,593,326	6,322,870	2,092,341	8,812,613	198,157,540
2003	100,343,159	52,362,560	12,679,623	6,097,336	1,464,594	7,411,164	180,358,436
2002 ²	98,375,135	58,762,476	12,449,879	5,605,557	2,018,695	10,548,354	187,760,096
2001	89,503,325	48,369,359	9,638,476	3,685,621	4,072,585	9,668,449	164,937,815
2000	86,831,572	35,469,904	9,838,028	3,360,901	3,955,026	9,228,060	148,683,491
1999	82,998,188	34,847,767	8,690,565	306,506	3,328,425	8,894,527	139,065,978
1998	79,200,331	40,261,744	8,040,655	2,603,350	3,525,748	10,363,736	143,995,564
1997	78,164,628	26,909,591	7,903,461	3,841,495	3,203,760	8,414,170	128,437,105
1996	75,624,598	27,398,828	7,587,645	3,012,387	2,891,696	9,518,249	126,033,403
1995	71,429,314	24,447,377	6,325,774	3,211,819	2,636,591	9,503,980	117,554,855

¹ Includes General, Special Revenue and Debt Service Funds.

² StarTran added as a Special Revenue Fund in 2002.

**SPECIAL ASSESSMENT COLLECTIONS
LAST TEN YEARS ¹**

Fiscal Year Ended <u>August 31</u>	Special Assessment Collections <u>Including Interest</u>
2004	\$ 2,104,925
2003	1,814,191
2002	1,867,653
2001	1,796,924
2000	1,948,791
1999	2,359,812
1998	2,104,022
1997	2,390,085
1996	2,484,416
1995	2,337,275

¹ Special assessment collections are not tracked by levy year, therefore the portion of collections during any year which apply to any particular levy cannot be determined.

Authority to Levy Taxes

Article IX, Section 3 of the Home Rule Charter of the City provides that the City shall have power to levy a tax each year for general revenue purposes upon all property subject to taxation; provided that the maximum amount of taxes that can be levied by the City in any one year for general revenue purposes shall not exceed an amount known as the City tax limit. The City tax limit is a tax ceiling established by using the September 1, 1966 City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter, the amount of the City tax limit shall be the amount of the city tax limit for the previous year, plus 7% thereof. In addition, the City also has the power to levy taxes each year sufficient to pay any judgment existing against the City and the interest on bonded debt and the principal on any bonded debt maturing during the fiscal year or within six months thereafter, as well as taxes authorized by state law. The City is also authorized to receive all taxes collected and distributed pursuant to state law and in lieu of tax payments imposed by law. The 2004 tax levy for the 2004-2005 fiscal year is \$56,077,695 below the legal limit, a tax rate per \$100 valuation of .29498. The assessed value upon which the 2004 levy is based is \$13,138,516,226. Only 90% of the property tax levy may be appropriated, by charter.

For the 2004-2005 fiscal year the City is subject to a state imposed lid on the appropriation of "restricted funds", which are revenues received from property tax, sales tax, state aid, in-lieu of tax, municipal infrastructure redevelopment fund (MIRF), and highway allocation fees. Bonded indebtedness, capital improvements, and costs associated with interlocal agreements are exempt from the lid. For 2004 2005 the City can also use authority equal to the amount of real growth in the tax base of 3.1%. An additional 1% can be authorized by a 75% vote of the City Council but was not utilized for the 2004-2005 budget. The 2004-2005 budget is approximately \$12.0 million below the state imposed lid limit.

**PROPERTY TAX LEVIED AND COLLECTED
LAST TEN YEARS**

The fiscal year of the City begins September 1 and ends August 31. Taxes are levied in October. First installments of real estate taxes are delinquent the following April 1, second installments delinquent August 1; personal property taxes are delinquent April 1 and August 1. Delinquent taxes bear 14 percent interest. The figures below include interest and penalties.

Tax Year	Taxes Levied	Collected As Of August 31 After Levy			Accumulated Collections As Of August 31, 2004	
		Amount	Percent		Amount	Percent
2003	\$ 36,994,112	\$ 35,726,509	96.57 %	\$	35,726,509	96.57 %
2002	35,007,926	33,676,453	96.20		34,989,546	99.95
2001	33,731,282	32,501,760	96.35		33,828,374	100.29
2000	31,159,364	29,936,079	96.07		31,144,936	99.95
1999	29,603,794	28,665,780	96.83		29,760,955	100.53
1998	27,597,664	26,411,546	95.70		27,510,509	99.68
1997	26,812,692	25,758,577	96.07		26,975,466	100.61
1996	27,022,949	25,894,971	95.83		26,962,580	99.78
1995	26,717,464	25,626,901	95.92		26,807,504	100.34
1994	26,289,058	25,209,483	95.89		26,295,625	100.02

The figures below do not include motor vehicle in lieu of ad valorem taxes.

TEN LARGEST TAXPAYERS

Listed below are the ten largest taxpayers in the City of Lincoln as reported by the County Assessor. These taxpayers each pay less than five percent of the total taxes levied.

<u>Taxpayers</u>	<u>Type Of Business</u>	<u>2004 Assessed Valuations</u>	<u>Percentage Of Total Assessed Valuation</u>
Alltel Communications	Telecommunications	\$ 75,992,780	.58%
Kawasaki	Manufacturing	72,057,508	.55
B & J Partnership Ltd.	Building Management	59,575,597	.45
Ameritas Life Insurance Corp	Insurance	51,123,462	.39
Chateau Van Dorn LLC	Real Estate Development	46,094,352	.35
Pfizer	Animal Health	44,443,827	.34
WEA Gateway LLC	Retail Management	44,293,300	.34
Burlington Northern	Railroad	43,686,201	.33
Nebco	Construction/Development	37,492,237	.29
Molex Inc.	Manufacturing	<u>37,414,408</u>	<u>.28</u>
		<u>\$ 512,173,672</u>	<u>3.90%</u>

CITY SALES TAX INFORMATION

The City had a one percent (1%) sales and use tax through June 30, 1985. Effective July 1, 1985 the sales and use tax was raised to one and one half percent (1.5%). These taxes are administered and collected for the City by the State of Nebraska. The State receives three percent (3%) for their service. The City has had a sales tax since 1969.

SALES AND USE TAX COLLECTIONS LAST TEN YEARS

<u>Year Ended</u> <u>August 31</u>	<u>Amount</u>
2004	\$ 51,869,477
2003	48,657,268
2002	45,393,491
2001	44,486,127
2000	43,608,313
1999	41,642,771
1998	37,479,413
1997	36,549,194
1996	33,543,308
1995	31,420,946

GENERAL FUND TAX COLLECTIONS LAST TEN YEARS

<u>Fiscal</u> <u>Year</u>	<u>Property and</u> <u>Motor Vehicle</u> <u>Taxes</u>	<u>Sales and</u> <u>Use Taxes</u>	<u>Insurance</u> <u>Taxes</u>	<u>Sundry</u> <u>Taxes</u>	<u>Taxes</u> <u>In Lieu</u>	<u>Occupation</u> <u>Taxes</u>	<u>Total</u>
2004	\$ 24,546,532	51,869,477		9,263	1,144,747	9,037,781	86,607,800
2003	22,780,085	48,657,268		10,876	1,199,507	8,831,712	81,479,448
2002	23,353,414	45,393,491		8,403	1,163,468	9,097,442	79,016,218
2001	20,284,364	44,486,127		8,497	1,107,183	5,889,097	71,775,268
2000	19,487,198	43,608,313		8,522	1,043,287	5,651,371	69,798,691
1999	20,741,154	41,642,771		17,516	1,080,495	5,721,321	69,203,257
1998	18,953,860	37,479,413	889,226	8,647	944,612	4,743,649	63,019,407
1997	19,642,898	36,549,194	921,550	14,903	960,260	4,783,841	62,872,646
1996	19,407,255	33,543,308	984,537	15,438	978,909	4,437,038	59,366,485
1995	19,565,473	31,420,946	958,656	20,132	943,930	5,311,487	58,220,624

**TAXABLE ASSESSED VALUATION
LAST TEN YEARS ¹**

<u>Tax Year</u>		<u>Real Estate</u>	<u>All Other</u>	<u>Motor Vehicle</u>	<u>Total</u>
2004	\$	12,421,799,720	716,716,506	-	13,138,516,226
2003		12,001,190,379	742,915,013	-	12,744,105,392
2002		10,350,628,778	779,959,389	-	11,130,588,167
2001		9,903,888,713	820,797,124	-	10,724,685,837
2000		8,814,516,041	806,431,814	-	9,620,947,855
1999		8,423,860,600	716,780,457	-	9,140,641,057
1998		7,859,292,010	660,609,204	-	8,519,901,214
1997		6,850,027,133	637,669,384	-	7,487,696,517
1996		6,516,782,050	525,762,951	706,470,078	7,749,015,079
1995		6,243,138,433	442,913,618	639,647,617	7,325,699,668

¹Assessment is at 100% of actual. Effective in the 1997 tax year, Motor Vehicles are excluded from the taxable assessed valuation.

**TOTAL PROPERTY TAX LEVIES
ALL OVERLAPPING GOVERNMENTS
LAST TEN YEARS ***

	<u>Tax Year</u>									
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
City Of Lincoln	0.2950	0.2903	0.3145	0.3145	0.3239	0.3239	0.3239	0.3581	0.3837	0.3996
School District No. 1	1.3141	1.3041	1.2830	1.2732	1.3684	1.3813	1.3050	1.6308	1.6260	1.5946
Lancaster County	0.2797	0.2683	0.2683	0.2583	0.2643	0.2584	0.2782	0.2966	0.3106	0.3169
Educational Service Unit #18	0.0150	0.0150	0.0150	0.0150	0.0150	0.0150	0.0149	0.0089	0.0081	0.0082
Community Technical College	0.0655	0.0655	0.0655	0.0636	0.0295	0.0334	0.0696	0.0782	0.0840	0.0864
Lower Platte South Natural Res. Dist.	0.0323	0.0323	0.0359	0.0365	0.0367	0.0372	0.0389	0.0365	0.0346	0.0346
Railroad Transportation Safety Dist.	0.0260	0.0248	0.0220	0.0221	0.0260	0.0260	0.0260	0.0260	0.0091	0.0096
Agricultural Society Of Lancaster County	0.0020	0.0030	0.0012	0.0024	0.0073	0.0032	0.0013	0.0364	0.0364	0.0014
Lancaster County Fairgrounds	0.0042	0.0043	0.0050	0.0052	-	-	-	-	-	-
Public Building Commission	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0170	0.0169	0.0170
	<u>2.0508</u>	<u>2.0246</u>	<u>2.0274</u>	<u>2.0078</u>	<u>2.0881</u>	<u>2.0954</u>	<u>2.0748</u>	<u>2.4885</u>	<u>2.5094</u>	<u>2.4683</u>

*The assessment rate is 100% of market and the levy is expressed as the tax per \$100 of estimated market value.

DEBT MANAGEMENT
OUTSTANDING INDEBTEDNESS AS OF AUGUST 31, 2004
Long-term debt is comprised of the following individual issues (in thousands of dollars):

Original Amount	Issued	Issue	Interest Rate	When Due	Date Callable	Interest Date	Outstanding
General Obligation Bonds:							
General Bonds:							
8,250	08/15/97	Storm Sewer and Drainage	4.500 - 5.125	Ser. '99 to '17	2005	Semiannually	\$ 6,735
14,435	03/01/99	Various Purpose Series A	3.000 - 4.600	Ser. '00 to '14	2009	"	10,555
7,365	03/01/99	Various Purpose Series A	4.750	Term '15 to '19	2009	"	7,365
8,220	03/01/99	Various Purpose Series B	3.000 - 4.250	Ser. '99 to '11	2007	"	4,530
7,500	05/29/02	Storm Sewer and Drainage	3.000 - 5.000	Ser. '04 to '22	2010	"	7,500
15,595	06/24/03	Various Purpose	3.000 - 3.750	Ser. '04 to '17	2013	"	14,255
3,710	06/24/03	Various Purpose	4.000 - 4.125	Term '18 to '23	2013	"	3,710
35,000	03/03/04	Highway Allocation Fund	2.000 - 5.000	Term '07 to '23	2014	"	35,000
Total General Bonds							<u>\$ 89,650</u>
Municipal Infrastructure Redevelopment Bonds:							
3,200	06/13/00	Municipal Infrastructure Redevelopment	4.750 - 5.100	Ser. '01 to '09	2005	Semiannually	<u>\$ 2,090</u>
Tax Allocation Bonds:							
1,310	11/15/92	Tax Allocation Bonds	3.250 - 6.200	Ser. '93 to '06	1997	Semiannually	\$ 225
105	11/15/92	Tax Allocation Bonds	6.330	Term '93 to '06	1997	"	35
90	11/15/92	Tax Allocation Bonds	6.300	Term '93 to '05	1997	"	25
303	10/18/94	Tax Allocation Bonds	8.000	Term '95 to '05	Anytime	"	59
232	04/21/00	Tax Allocation Bonds	6.390	Ser. '00 to '10	2000	"	156
42	06/01/03	Tax Allocation Bonds	4.060	Ser. '04 to '11	Anytime	"	40
1,035	04/06/04	Tax Allocation Bonds	2.000 - 3.200	Ser. '04 to '11	2008	"	1,035
5,500	04/07/04	Tax Allocation Bonds	3.000 - 4.800	Ser. '04 to '15	2010	"	5,500
Total Tax Allocation Bonds							<u>\$ 7,075</u>
Total General, MIRF, And Tax Allocation Bonds							<u>\$ 98,815</u>
Special Assessment Bonds:							
3,860	11/15/89	Special Assessment Revolving	5.900 - 6.850	Ser. '90 to '04	1996	Semiannually	<u>\$ 100</u>
TOTAL GENERAL OBLIGATION BONDS							<u>\$ 98,915</u>
Tax-Supported Revenue Bonds:							
11,080	2/27/02	Antelope Valley Project	1.500 - 5.000	Ser. '02 to '16	2012	Semiannually	<u>\$ 10,255</u>
Revenue Bonds:							
11,850	11/22/02	Water Revenue	2.750 - 5.000	Ser. '05 to '17	2012	Semiannually	\$ 11,850
6,660	11/22/02	Water Revenue	5.000	Term '18 to '22	2012	"	6,660
32,180		Water Revenue	5.000	Ser. '04 to '12	-	"	29,065
Total Water Bonds							<u>\$ 47,575</u>
15,765	08/01/03	Wastewater Revenue	2.000 - 5.000	Ser. '04 to '23	2013	Semiannually	\$ 14,015
39,235	08/01/03	Wastewater Revenue	4.625 - 5.000	Ser. '04 to '28	2013	Semiannually	39,235
							<u>\$ 53,250</u>
6,815	09/08/99	Parking Revenue Series A	4.000 - 5.000	Ser. '00 to '09	2009	Semiannually	\$ 5,055
6,695	09/08/99	Parking Revenue Series A	5.375	Term '10 to '14	2009	"	6,695
6,000	12/05/01	Parking Revenue	3.750 - 5.125	Ser. '02 to '21	2011	"	5,290
Total Parking Bonds							<u>\$ 17,040</u>
3,165	10/23/01	Golf Course Revenue Refunding	2.300 - 4.050	Ser. '02 to '11	2008	Semiannually	<u>\$ 2,290</u>
45,560	02/15/98	Electric Revenue Bonds '98 Series A	4.500 - 5.000	Ser. '98 to '18	2008	"	36,555
141,150	08/15/01	Electric Revenue Bonds '01	4.000 - 5.250	Ser. '06 to '20	2011	"	141,150
148,190	10/01/02	Electric Revenue Bonds '02	4.000 - 5.000	Ser. '04 to '25	2012	"	148,190
93,045	10/01/03	Electric Revenue Bonds '03	3.000 - 5.000	Ser. '04 to '26	2014	"	93,045
33,265	10/01/03	Electric Revenue Bonds '03	4.750	Term '28	2014	"	33,265
Total Electric Bonds							<u>\$ 452,205</u>
TOTAL REVENUE BONDS							<u>\$ 572,360</u>

The annual requirements to pay principal and interest on all outstanding debt are as follows (in thousands of dollars):

Fiscal Year Ended August 31	Governmental Activities							
	General Obligation Bonds		Special Assessment Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 4,736	4,430	100	3	565	423	375	293
2006	4,809	3,971	-	-	580	409	543	285
2007	4,485	3,798	-	-	595	392	515	272
2008	4,737	3,637	-	-	615	372	537	259
2009	5,604	3,453	-	-	635	350	546	242
2010 - 2014	26,584	14,023	-	-	3,575	1,334	2,563	930
2015 - 2019	28,530	7,652	-	-	3,690	335	1,811	461
2020 - 2024	19,330	2,163	-	-	-	-	895	89
	<u>\$ 98,815</u>	<u>43,122</u>	<u>100</u>	<u>3</u>	<u>10,255</u>	<u>3,615</u>	<u>7,185</u>	<u>2,831</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 19,915	27,188	418	60
2006	17,730	26,840	432	44
2007	18,515	26,106	323	26
2008	22,200	25,258	333	12
2009	23,175	24,271	23	3
2010 - 2014	121,265	104,229	25	1
2015 - 2019	144,935	72,831	-	-
2020 - 2024	114,195	36,381	-	-
2025 - 2029	90,430	13,240	-	-
	<u>\$ 572,360</u>	<u>356,344</u>	<u>1,554</u>	<u>146</u>

The City issues general obligation, special assessment, and revenue bonds to finance the acquisition and construction of major capital assets. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds are repaid from amounts levied against affected property owners, but in the unlikely event collections are not sufficient to make debt payments, the responsibility rests with the City to meet that obligation. For revenue bonds the government pledges income derived from the acquired or constructed assets to pay the debt service.

Net assets of \$6,910,648, \$3,187,150, \$5,233,865, and \$7,344,884 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

	Governmental Activities	Business-Type Activities
Land	\$ 42,000	\$ 210,000
Buildings	6,350,750	-
Machinery and Equipment	206,597	2,297,420
Less Accumulated Depreciation, (where applicable)	<u>(707,413)</u>	<u>(779,171)</u>
Total	<u>\$ 5,891,934</u>	<u>\$ 1,728,249</u>

Under the City's Home Rule Charter, there is no legal debt margin. The various bond indentures contain significant limitations and restrictions on annual debt service requirements, minimum amounts to be maintained in various bond reserve funds, and minimum revenue bond coverages.

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2003, LES had \$90.2 million of tax exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2003, was 1.1 percent. The annual requirement to pay interest on this outstanding debt is approximately \$992,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

The general obligation debt of all local governmental units which provide services within the City's boundaries and which debt must be borne by properties in the City (commonly called overlapping debt) as of August 31, 2004, is summarized below (unaudited):

Units	Net Debt Outstanding	Percentage Applicable To The City	Direct And Overlapping Debt To The City
Direct:			
City	\$ 78,406,000	100.0 %	\$ 78,406,000
Overlapping:			
School District #1	110,610,000	97.2	107,513,000
Airport Authority	5,358,000	100.0	5,358,000
Lancaster County	11,481,000	84.6	9,713,000
Public Building Commission	37,815,000	84.6	31,991,000
Southeast Community College	None	35.9	None
	<u>165,264,000</u>		<u>154,575,000</u>
Total	\$ <u>243,670,000</u>		\$ <u>232,981,000</u>

The City has no direct liability for the School District, Airport Authority, Lancaster County, or Southeast Community College debt summarized above. This results in a per capita direct City debt of \$328.40; a per capita direct and overlapping debt of \$975.84; a ratio of direct City debt to 2004 actual valuation of .60 percent; and a ratio of direct and overlapping debt to 2004 actual valuation of 1.77 percent.

Debt Payment Record

The City of Lincoln has never defaulted on its obligation to pay principal or interest on its indebtedness.

Contingencies

The City is a defendant in a number of lawsuits in its normal course of operations and management is of the opinion that ultimate settlement of such lawsuits will not have a materially adverse effect on the financial statements.

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES LAST TEN FISCAL YEARS ²

Fiscal Year	Principal	Interest ³	Total Debt Service	Total General Governmental Expenditures ^{1, 4}	Ratio Of Debt Service To Total General Expenditures
2004	\$ 4,934,224	\$ 2,893,437	\$ 7,827,661	\$ 172,325,875	4.54 %
2003	5,435,370	2,986,634	8,422,004	160,788,398	5.24
2002	4,921,172	2,421,303	7,342,475	154,592,987	4.75
2001	4,966,405	2,753,247	7,719,652	132,460,378	5.83
2000	5,125,296	2,772,021	7,897,317	122,288,862	6.46
1999	4,209,267	2,301,745	6,511,012	114,487,894	5.69
1998	4,927,317	2,329,696	7,257,013	123,721,722	5.87
1997	5,469,089	2,274,947	7,744,036	101,748,922	7.61
1996	4,959,621	2,445,185	7,404,806	102,512,075	7.22
1995	4,827,845	2,086,601	6,914,446	94,874,438	7.29

¹ Includes: General, Special Revenue, and Debt Service Funds

² In-substance defeasance excluded from this table.

³ Does not include fiscal and miscellaneous charges.

⁴ StarTran added as Special Revenue Fund in 2002.

**SCHEDULE OF GENERAL OBLIGATION DEBT IN RELATION TO POPULATION,
ASSESSED VALUATION, AND REAL PROPERTY VALUATION
LAST TEN FISCAL YEARS**

Fiscal Year	General Obligation Bonded Debt	Sinking Funds	Net General Obligation Bonded Debt	Population ¹	Net G.O. Bonded Debt Per Capita	Assessed Valuation Real And Personal ²	Ratio Of Net Debt To Assessed Valuation Real & Personal	Assessed Valuation Of Taxable Real Property	Ratio Of Net Debt To Estimated Valuation Of Taxable Real Property
2004	\$ 98,915,000	\$ 20,509,000	\$ 78,406,000	238,750	\$ 328.40	\$ 13,138,516,226	0.60 %	\$ 12,421,799,720	0.63 %
2003	61,759,000	17,083,000	44,676,000	235,565	189.65	12,744,105,392	0.35	12,001,190,379	0.37
2002	56,997,000	15,847,000	41,150,000	231,800	177.52	11,130,588,167	0.37	10,350,628,778	0.40
2001	54,418,000	11,243,000	43,175,000	225,588	191.39	10,724,685,837	0.40	9,903,888,713	0.44
2000	58,814,000	9,739,000	49,075,000	218,497	224.60	9,620,947,855	0.51	8,814,516,041	0.56
1999	60,508,000	12,182,000	48,326,000	217,537	222.15	9,140,641,057	0.53	8,423,860,600	0.57
1998	40,492,000	17,707,000	22,785,000	215,000	105.98	8,519,901,214	0.27	7,859,292,010	0.29
1997	47,665,000	16,121,000	31,544,000	209,192	150.79	7,487,696,517	0.42	6,850,027,133	0.46
1996	44,885,000	14,529,594	30,355,406	206,100	147.28	7,749,015,079	0.39	6,516,782,050	0.47
1995	49,573,000	13,486,759	36,086,241	203,076	177.70	7,325,699,668	0.49	6,243,138,433	0.58

1 Source: Lincoln/Lancaster Planning Department.

2 Assessed valuation is 100% of actual.

**REVENUE BOND COVERAGE
LAST TEN FISCAL YEAR**

	Gross Revenue	Direct Operating Expenses	Net Revenue Available For Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
<u>Wastewater System</u>							
2004	\$ 19,071,798	10,042,919	9,028,879	2,832,500	2,348,176	5,180,676	1.74
2003	15,785,843	9,086,469	6,699,374	1,032,500	266,722	1,299,222	5.16
2002	15,731,749	8,632,287	7,099,462	992,500	316,847	1,309,347	5.42
2001	16,663,975	8,087,688	8,576,287	952,500	364,972	1,317,472	6.51
2000	16,741,692	7,707,242	9,034,450	912,500	411,097	1,323,597	6.83
1999	16,286,632	7,591,990	8,694,642	1,255,000	474,743	1,729,743	5.03
1998	15,873,036	7,512,753	8,360,283	1,217,500	554,216	1,771,716	4.72
1997	15,521,150	7,339,135	8,182,015	1,120,000	627,402	1,747,402	4.68
1996	15,158,461	7,082,660	8,075,801	1,070,000	677,886	1,747,886	4.62
1995	14,978,232	6,785,101	8,193,131	1,020,000	728,840	1,748,840	4.68
<u>Water System</u>							
2004	\$ 22,940,862	12,477,486	10,463,376	6,270,000	4,236,493	10,506,493	1.00
2003	21,533,965	11,631,496	9,902,469	3,010,000	2,898,489	5,908,489	1.68
2002	22,687,789	11,474,433	11,213,356	2,880,000	2,110,590	4,990,590	2.25
2001	22,287,139	10,960,315	11,326,824	2,755,000	2,240,075	4,995,075	2.27
2000	23,823,957	9,812,147	14,011,810	2,640,000	2,361,515	5,001,515	2.80
1999	20,787,797	9,067,262	11,720,535	2,530,000	2,514,373	5,044,373	2.32
1998	21,009,615	8,894,295	12,115,320	2,435,000	2,621,365	5,056,365	2.40
1997	20,426,318	8,161,529	12,264,789	2,345,000	2,730,407	5,075,407	2.42
1996	20,152,071	8,072,097	12,079,974	2,265,000	2,829,751	5,094,751	2.37
1995	20,467,243	7,622,280	12,844,963	2,195,000	2,963,950	5,158,950	2.49
<u>Parking Facilities</u> ^{1, 2}							
2004	\$ 6,271,131	2,733,492	3,537,639	1,145,000	908,456	2,053,456	1.72
2003	5,988,240	2,304,632	3,683,608	1,085,000	962,829	2,047,829	1.80
2002	5,483,546	1,964,389	3,519,157	1,115,000	924,470	2,039,470	1.73
2001	5,172,264	2,127,350	3,044,914	795,000	787,419	1,582,419	1.92
2000	4,853,708	1,393,637	3,460,071	455,000	761,521	1,216,521	2.84
1999	4,209,988	2,329,165	1,880,823	585,000	640,712	1,225,712	1.53
1998	4,068,991	1,340,709	2,728,282	455,000	651,694	1,106,694	2.47
1997	3,623,705	1,110,085	2,513,620	435,000	670,847	1,105,847	2.27
1996	3,411,735	1,271,655	2,140,080	415,000	908,380	1,323,380	1.62
1995	3,205,953	1,025,468	2,180,485	400,000	483,214	883,214	2.47

1 Includes parking meter revenues that were deposited to the General Fund but are pledged per bond ordinance.

2 Information in this table does not agree with information in the transmittal letter of the City's CAFR because that information is calculated in accordance with specific requirements of the bond covenants.

CITY OF LINCOLN, NEBRASKA
GENERAL FUND
SUMMARY CASH FLOW STATEMENT - CASH BASIS
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>
Cash & Investment Balance - September 1 of Year Indicated	13,711,860	17,986,481	20,599,597	26,542,206	22,742,585	25,069,133	26,814,745	24,802,768	26,589,993	26,784,845
Receipts:										
Property Tax	19,566,778	19,400,997	19,642,898	18,953,860	20,741,154	19,487,198	20,284,364	23,353,414	22,780,085	24,546,532
City Sales & Use Tax	31,420,946	33,543,308	36,549,194	37,479,413	41,642,771	43,608,313	44,486,127	45,393,492	48,657,268	51,869,477
Other Income	<u>19,455,828</u>	<u>20,709,728</u>	<u>18,708,672</u>	<u>19,373,404</u>	<u>19,991,222</u>	<u>21,339,093</u>	<u>21,786,016</u>	<u>26,342,414</u>	<u>24,933,838</u>	<u>23,615,320</u>
Total Receipts	70,443,332	73,654,033	74,900,764	75,806,077	82,373,147	84,434,604	86,556,507	95,089,320	96,371,191	100,031,329
Less Disbursements	<u>66,168,931</u>	<u>71,040,917</u>	<u>68,958,155</u>	<u>79,606,298</u>	<u>80,048,599</u>	<u>82,688,992</u>	<u>88,568,484</u>	<u>93,302,095</u>	<u>96,176,339</u>	<u>103,295,044</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>17,986,481</u>	<u>20,599,597</u>	<u>26,542,206</u>	<u>22,742,585</u>	<u>25,069,133</u>	<u>26,814,745</u>	<u>24,802,768</u>	<u>26,589,993</u>	<u>26,784,845</u>	<u>23,521,130</u>

CITY OF LINCOLN, NEBRASKA
GENERAL BONDED INDEBTEDNESS AND DEBT SERVICE FUND
SUMMARY CASH FLOW STATEMENT - CASH BASIS
FOR LAST TEN FISCAL YEARS

	<u>F.Y. 1995</u>	<u>F.Y. 1996</u>	<u>F.Y. 1997</u>	<u>F.Y. 1998</u>	<u>F.Y. 1999</u>	<u>F.Y. 2000</u>	<u>F.Y. 2001</u>	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>
Cash Balance - September 1 of Year Indicated	3,006,570	3,705,634	3,748,493	4,000,777	3,682,098	3,536,402	3,313,405	3,099,198	3,440,537	2,935,997
Receipts:										
Property Tax	4,435,594	4,325,012	4,350,593	4,461,628	4,475,066	5,843,384	5,814,489	6,340,938	5,883,592	5,387,468
Interest Income	67,073	151,746	166,270	236,658	145,534	174,146	107,693	53,873	32,298	48,595
Bond Proceeds					189,482				9,436,083	
Other Income	<u>147,490</u>	<u>216,570</u>	<u>656,811</u>	<u>116,996</u>	<u>54,475</u>	<u>247,591</u>	<u>235,736</u>	<u>232,009</u>	<u>240,110</u>	<u>691,340</u>
Total Receipts	<u>4,650,157</u>	<u>4,693,328</u>	<u>5,173,674</u>	<u>4,815,282</u>	<u>4,864,557</u>	<u>6,265,121</u>	<u>6,157,918</u>	<u>6,626,820</u>	<u>15,592,083</u>	<u>6,127,403</u>
Disbursements:										
Bonds Paid	2,809,007	2,801,208	3,158,769	3,304,097	2,725,042	3,973,769	4,052,948	4,137,254	4,177,765	3,215,000
Bonds Defeased									9,609,774	
Interest Paid	1,482,193	1,835,496	1,756,656	1,817,400	1,955,821	2,500,471	2,308,922	2,144,322	2,309,084	2,271,548
Transfer to Trustee					164,400					
Other Disbursements	<u>13,281</u>	<u>13,765</u>	<u>5,965</u>	<u>12,464</u>	<u>164,990</u>	<u>13,878</u>	<u>10,255</u>	<u>3,905</u>		<u>6,295</u>
Total Disbursements	<u>4,304,481</u>	<u>4,650,469</u>	<u>4,921,390</u>	<u>5,133,961</u>	<u>5,010,253</u>	<u>6,488,118</u>	<u>6,372,125</u>	<u>6,285,481</u>	<u>16,096,623</u>	<u>5,492,843</u>
Equity Transfer	<u>353,388</u>									
Cash Balance - August 31 of Year Indicated	<u><u>3,705,634</u></u>	<u><u>3,748,493</u></u>	<u><u>4,000,777</u></u>	<u><u>3,682,098</u></u>	<u><u>3,536,402</u></u>	<u><u>3,313,405</u></u>	<u><u>3,099,198</u></u>	<u><u>3,440,537</u></u>	<u><u>2,935,997</u></u>	<u><u>3,570,557</u></u>

CITY OF LINCOLN, NEBRASKA
SPECIAL ASSESSMENT REVOLVING FUND
SUMMARY CASH FLOW STATEMENT - CASH BASIS
FOR LAST TEN FISCAL YEARS

	F.Y. 1995	F.Y. 1996	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001	F.Y. 2002	F.Y. 2003	F.Y. 2004
Cash & Investment Balance - September 1 of Year Indicated	6,746,441	6,053,742	4,855,959	5,150,392	5,357,118	5,003,362	4,964,458	3,778,207	6,586,633	6,910,967
Receipts:										
Special Assessment Collections	1,883,342	2,080,536	1,972,082	1,818,743	1,992,503	1,638,233	1,529,352	1,360,347	1,271,575	1,654,695
Interest on Special Assessments	453,933	403,880	418,003	285,279	367,309	310,558	257,157	294,839	346,725	267,298
City's Share of Costs	1,608,296	203,943	161,620		2,038,202	895,961	2,516,175	2,145,574	97,107	116,009
Developers' Share of Costs		14,163	40,508	685,754	75,572		473,445	4,617		
Bond Proceeds										
Interest on Investments	239,639	312,003	233,112	341,381	241,768	286,460	219,336	137,143	130,333	140,289
Miscellaneous	67,011	583	4,134		244,724	993,245	144,005	474,438	195,535	288,482
Total Receipts	<u>4,272,221</u>	<u>3,015,108</u>	<u>2,849,459</u>	<u>3,131,357</u>	<u>4,960,078</u>	<u>4,124,457</u>	<u>5,139,670</u>	<u>4,416,958</u>	<u>2,041,497</u>	<u>2,466,773</u>
Disbursements:										
Construction Costs	3,018,759	2,408,261	703,170	1,637,987	2,333,433	2,338,999	3,646,025	1,090,434	1,560,456	1,399,323
Bonds Paid	1,105,000	1,170,000	1,115,000	1,105,000	785,000	770,000	270,000	110,000	105,000	105,000
SID Warrants										
Interest Paid on Bonds & Notes	342,607	285,745	225,544	167,055	110,155	67,293	39,438	24,762	17,534	10,420
Other Refunds & Expenses	498,554	348,886	511,312	14,589	2,085,246	987,069	2,370,458	383,336	34,173	32,495
Total Disbursements	<u>4,964,920</u>	<u>4,212,892</u>	<u>2,555,026</u>	<u>2,924,631</u>	<u>5,313,834</u>	<u>4,163,361</u>	<u>6,325,921</u>	<u>1,608,532</u>	<u>1,711,163</u>	<u>1,547,238</u>
Cash & Investment Balance - August 31 of Year Indicated	<u>6,053,742</u>	<u>4,855,959</u>	<u>5,150,392</u>	<u>5,357,118</u>	<u>5,003,362</u>	<u>4,964,458</u>	<u>3,778,207</u>	<u>6,586,633</u>	<u>6,910,967</u>	<u>7,830,502</u>

APPENDIX A-2

**CITY OF LINCOLN, NEBRASKA
FINANCIAL STATEMENTS**

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CITY OF LINCOLN
NEBRASKA

MAYOR COLEEN J. SENG

lincoln.ne.gov

Office of the Mayor
555 South 10th Street
Suite 208
Lincoln, Nebraska 68508
402-441-7511
fax: 402-441-7120
mayor@ci.lincoln.ne.us

January 20, 2005

Dear Citizens and Public Officials:

I am pleased to provide the City of Lincoln's Comprehensive Annual Financial Report for the fiscal year ended August 31, 2004.

Discipline is the rule for the City of Lincoln finances. We enforce fiscal responsibility to stay within the operating budget. Our stable city government is an asset to Lincoln's overall economy.

Lincoln residents are proud of our City which continues to grow and prosper. The City's financial condition is good as reflected by the City's excellent bond ratings.

City Departments do an excellent good job of meeting the high demand for city services with limited resources. The City government is prudent in its use of taxpayers funds, as evidenced by the significant reduction in the city property tax rate during the past ten years.

Our ability to manage the City's fiscal affairs and ensure a full disclosure of the City's fiscal condition is exhibited by the unqualified audit opinion. I am proud to report that the 2003 report submitted to the Government Finance Officers Association was recognized with the prestigious Certificate of Achievement for Excellence in Financial Reporting for the twenty-first consecutive year. This is a complement to the City Finance Department staff for dealing with these complex accounting issues. We express thanks to the Finance Department staff and to all the city departments for their cooperation in preparing this document.

Sincerely,

Coleen J. Seng
Mayor of Lincoln

January 19, 2005

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Lincoln:

Both the City Charter and State law require an annual audit of the City's funds and accounts be made by a recognized independent and qualified accountant covering all financial transactions, affairs, and financial condition of the City, with the audit report published within six months after the close of the fiscal year. Pursuant to this requirement, the Comprehensive Annual Financial Report (CAFR) of the City of Lincoln, Nebraska for the fiscal year ended August 31, 2004, is hereby submitted.

Responsibility for both the accuracy of the data found in this report, and the completeness and fairness of the presentation, including all disclosures, rests with management. In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss, theft, or misuse, and to ensure the reliability of financial records for preparing financial statements in accordance with generally accepted accounting principles (GAAP) and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. The federal government, under the revised OMB Circular A-133, requires local governments that expend \$500,000 or more in federal funds in any fiscal year to have a financial and compliance audit performed. As part of the City's Single Audit, tests were made of the City's internal control structure over compliance and its compliance with applicable laws and regulations, including those related to major federal financial assistance programs. The Single Audit for the year ended August 31, 2004, disclosed no material internal control weaknesses. The independent accountants' reports are included in the Single Audit section found at the end of the CAFR.

To the best of management's knowledge and belief, the enclosed data are accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities as specified by all currently effective statements of the Governmental Accounting Standards Board have been included.

A firm of licensed certified public accountants has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City are free of material misstatement. The audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent accountants' concluded, based upon the audit, that there was a reasonable basis for rendering unqualified opinions that the City's financial statements for the fiscal year ended August 31, 2004, are fairly presented in conformity with GAAP.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of management's discussion and analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found in the Financial Section immediately following the report of the independent accountants.

The City of Lincoln, capital city of Nebraska, was originally incorporated on April 7, 1869. Lincoln is located in the southeastern corner of the state, is midway between Chicago and Denver, and is currently one of the fastest growing metro areas in the Midwest. It occupies a land area of approximately 80 square miles, serves a population of over 238,000, and in its growth and development has annexed five other municipalities so that the City includes most of the urban area of Lancaster County. It enjoys a unique position in Nebraska as the center of the state's governmental and educational activities.

The City operates under a Home Rule Charter and has a Mayor-Council form of government with an elected full-time chief executive, the Mayor, and an elected legislative body, the Council, composed of seven members. Three Council members are elected at large and four by district on a nonpartisan basis for a term of four years. All legislative powers of the City are exclusively vested in the Council, as well as the power to adopt the budget, set the tax levy, and equalize taxes and assessments. The Mayor is responsible for the proper conduct of the affairs of the City, with the administration of City government performed under the direction of the Mayor through administrative departments.

The City of Lincoln provides a full range of services, including public safety (police and fire); the construction and maintenance of highways, streets, and other infrastructure; health; planning and zoning; golf courses, parks and recreation; urban development; mass transportation; ambulance transport; electric, water, and wastewater utilities; sanitary landfill; auditorium; parking facilities; and general administrative services.

The City Council exercises budgetary and/or rate setting authority over the City Library and Lincoln Electric System (LES), neither of which are legally separate from the City and are thus included as part of the primary government. The Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, Parking Lots, Parking Facilities, Golf Courses and Pershing Municipal Auditorium are all part of administrative departments under the direction of the Mayor and are included as part of the primary government. Separately audited financial statements are available for LES, Lincoln Water System, Lincoln Wastewater System, Emergency Medical Services, the City's Sanitary Landfill, and the Community Health Permanent Endowment Trust.

The annual budget serves as the basis for the City of Lincoln's financial planning and control. Following public hearings and not later than five days prior to the beginning of the fiscal year, the budget is legally adopted by resolution of the City Council. Appropriation controls are required at the department level, however, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department. The Mayor has the authority to transfer balances within a department as well as lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year. Appropriation transfers between departments may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except in the event of an emergency threatening serious loss of life, health, or property in the community.

Economic Condition And Outlook

Population growth is one of the best indicators of a community's economic well being. As such, the Lincoln metropolitan area's population growth during the past several years reflects a community that is economically viable and is strongly positioned to meet future challenges.

The Lincoln metropolitan area population base (Lancaster County) continues to demonstrate a pattern of sustained growth. According to the U. S. Census figures, the Lincoln metropolitan area population grew over 17% between 1990 and 2000, adding over 3,350 people to the community each year. The 1990 population of 213,641 reached 250,291 persons with the 2000 census, setting the County's annualized rate of population growth for the 1990's at 1.6 percent.

While such a growth rate may be modest by some standards, this healthy pace of expansion places Lincoln as one of the fastest growing communities in this region. Recent projections envision Lincoln to continue to grow at a rate of 1.5 percent per year. As importantly, the City of Lincoln continues to absorb about 90% of all growth in Lancaster County.

Despite a slow national and regional economy, Lincoln's growth has continued. Lincoln's unemployment rate at August 31, 2004 was 3.7%, well below the national average of 5.6%, with employment strongest in the categories

of government, services, and wholesale and retail trade. Lincoln's construction activity continues to demonstrate sustained growth as permits for all forms of new construction have risen 12% over the past 5 years with an increase in the value of construction permits of over \$187 million.

To more aggressively pursue economic opportunities, the City, Lancaster County, and LES have partnered to hire an economic development coordinator to facilitate job creation in the private sector. In addition, the Mayors Technology Council completed its technology audit, which led to a new strategic plan for economic development. Developing an identity and slogan for Lincoln is a vital part of that plan.

Current net sales and use tax revenue increased 6% over the previous fiscal year. Tax collections have been positively impacted by an improving local economy and an expansion of the sales tax base to include additional services.

Long-Term Planning And Major Initiatives

Urban Development

The City anticipates approximately \$35 million of public expenditures funded through various urban development projects and programs over the next three years. These projects are varied in type and size and are located in the Downtown and Haymarket areas, North 27th Street area, Havelock and University Place business areas, Focus Area neighborhoods, the Antelope Valley project area, and in low - moderate income areas throughout the City.

Financing will be provided by a variety of sources, including CDBG, HOME, and Nebraska Affordable Housing Trust Fund grants, Tax Increment Financing, Advanced Land Acquisition funds, Special Assessments, General Fund and Street Construction funds. Funding is often combined with developer, grant or other private sector funds.

The City's involvement will vary depending upon the project and could likely include property acquisition, relocation and demolition; housing rehabilitation and development; commercial development; and construction of public improvements including parking, sidewalks, infrastructure and streetscapes.

Ongoing and anticipated projects include:

- ◆ Downtown Redevelopment Projects:
 - 1) Redevelopment of Federal Place.
 - 2) Development of Douglas Grand, a 14 screen movie theater.
 - 3) Downtown I-180 entryway improvements.
 - 4) 12th Street arts corridor.
 - 5) Government Square park and streetscape improvement projects.
 - 6) Lincoln Mall streetscape project.
 - 7) Redevelopment of Douglas III and Cinema Twin theaters.
 - 8) Redevelopment of Salvation Army Building.
 - 9) Implementation of Haymarket 8th Street Corridor.
 - 10) Assist the Planning Department and Downtown Lincoln Association with the Downtown Master Plan and implementation of catalyst projects.
 - 11) Antelope Valley East Downtown hotel project.
 - 12) Haymarket Housing project at 7th and R Streets.
- ◆ The North 27th Street Corridor redevelopment projects include:
 - 1) Redevelopment of 27th Street north of the alley between O and P Streets to 26th Street.
 - 2) Redevelopment of the west side of 27th Street between S and T Streets.
 - 3) Construction of the pedestrian trail bridge at X Street.
 - 4) Infrastructure improvements around the Salvation Army Building on 27th and Potter Streets; including construction of a parking lot and pedestrian walking improvements to Pentzer Park.
 - 5) Redevelopment of the Carpenter's Union building at 1010 North 27th Street.
 - 6) Paving of alleys between 27th and 28th, Potter to Fair and between 28th and 29th, Clinton to Potter.
 - 7) Planting and irrigation of the North 27th Street medians.
- ◆ Implementation of selected Antelope Valley community revitalization catalyst projects as identified in the Antelope Valley Redevelopment Plan.
- ◆ Havelock Redevelopment on-going projects include streetscape improvements, pedestrian walkway and public parking lot redevelopment and beautification, alley resurfacing and/or repair.

- ◆ University Place Redevelopment includes streetscape improvements, the North 48th/University Place Concept Plan implementation, and redevelopment of the former Northeast Printers building.
- ◆ Housing rehabilitation and development programs:
 - 1) Continuation of First-time Homebuyer, Housing Development, and Owner-Occupied housing rehabilitation loan programs.
 - 2) Development of residential housing in Antelope Valley with the neighborhood “champion” for Antelope Valley, Neighborhoods Inc.
 - 3) Development of residential housing units in conjunction with downtown projects.
 - 4) Continue development of future phases of the affordable housing project, Old Mill Village, with Nebraska Housing Resource and plan the development of the next affordable housing project.
 - 5) Sustain the existing affordable rental housing stock by assisting on-going non-profit and tax credit projects.
- ◆ Housing Rehabilitation and Real Estate Division projects also include:
 - 1) Planning and negotiation for acquisition of park sites.
 - 2) Acquisition and negotiation projects –

<ul style="list-style-type: none"> ✓ South 14th Street widening and 14th and Warlick intersection improvements. ✓ Yankee Hill widening, 27th – 40th and South 27th, Yankee Hill to Whispering Wind. ✓ O Street widening, 84th to 46th Streets. ✓ South 84th Street Widening (3 phases). ✓ Vine Street widening, 22nd – 27th. ✓ Antelope Valley, 19th Street, K – Q, Big T project and North/South roadway. ✓ Antelope Valley storm water management, Phases I – III. ✓ Vine Street bridge replacement. ✓ Salt Valley trunk sewer phase III. ✓ Pine Lake Road widening, 40th – 59th. ✓ South 27th Street, Porter Ridge Road to south of Yankee Hill Road. 	<ul style="list-style-type: none"> ✓ South 56th Street, Old Cheney to Yankee Hill Road and Old Cheney Road, South 70th to 84th Streets. ✓ Pioneers Boulevard widening, 70th – 84th. ✓ Paving District 2626. ✓ Special assessment, executive order, and arterial rehab projects. ✓ Various projects in Public Works/Utilities 6-year program. ✓ Other Parks and Recreation projects city-wide. ✓ Title research of water transmission – Lincoln to Ashland. ✓ Antelope Valley Community Revitalization projects and concepts.
---	---
 - 3) Acquisition and disposition of surplus properties including tax sale lots, street and alley vacation, surplus park sites, surplus right-of-way, and other miscellaneous properties.
 - 4) Relocation projects including Antelope Valley Storm Management, Transportation, and Community Revitalization.
- ◆ Neighborhood Revitalization projects include: Focus Areas – Implementation of focus area public improvements. The focus areas are located in the Woods Park, Near South, Malone, Everett, Clinton, Downtown, North Bottoms, South Salt Creek and Hartley neighborhoods.
- ◆ The Workforce Investment Act (WIA) is federal legislation which took effect on July 1, 2000. Under this legislation, Mayor Coleen J. Seng is the designated Chief Elected Official working in conjunction with a 49 member Workforce Investment Board. This Board is constituted by law with a business majority. Other members represent community based organizations, education, economic development, organized labor, and program partner agencies. The Board and the Mayor developed a local plan to implement WIA that was approved by the State of Nebraska.

WIA has provided nearly \$1.2 million over the past year to the workforce investment area of Lancaster and Saunders Counties. WIA services are provided from the One Stop Career Center, located in downtown Lincoln. During the year, over 26,000 customer visits were made to the Center. A computer lab was opened in the center during the year, serving both job seekers and businesses. Efforts are underway to further align WIA services with local economic development plans and to increase the level of services to businesses in the workforce area.

Antelope Valley Project

The City of Lincoln, Lower Platte South Natural Resources District and the University of Nebraska-Lincoln have jointly partnered with the Lincoln community to develop a set of strategies to strengthen the historical center of Nebraska's Capital City. The new stormwater, transportation and community revitalization strategies have been incorporated into the Antelope Valley Amended Draft Single Package and formally approved by all three of the sponsoring governmental entities. The Joint Antelope Valley Authority (JAVA) has also submitted an Environmental Impact Statement (EIS) proposing defined projects as the action that best satisfies the purposes and needs with the least adverse environmental impacts. The EIS was approved by a Record of Decision by the Federal Highway Administration on October 31, 2001.

When implemented the Antelope Valley Projects will provide significant benefits to the State of Nebraska. Recognizing these benefits, the State Legislature authorized and appropriated one million dollars each state fiscal year, for a period of 15 years, to the City of Lincoln to fund the various projects. The City is required to provide matching funds equal to the ratio of one dollar for each three dollars of the State distribution.

The Antelope Valley Projects include community revitalization strategies in the project area and the implementation of the Closer to Home Strategies, developed by neighborhood residents and the City's Urban Development Department, which includes street, alley, and curb improvements, housing rehabilitation, and neighborhood clean-ups. Additional community revitalization strategies will be further defined as part of the Redevelopment Plan process, and will include housing relocation, commercial development and strategies to further strengthen existing neighborhoods.

Other projects identified are the construction of the approximately 6.2 mile Antelope Valley Roadway, which includes an overpass over the mainline railway south of the Bob Devaney Center, an expanded 19th Street corridor, changing some streets from minor arterials to urban collectors and local streets, and reduction of the rail/vehicular/pedestrian conflicts at street crossings.

Also included is the implementation of the Antelope Valley flood control project by constructing a new, open channel to contain the waters of a designated "100-year" rainfall event. The new channel will be developed in a park-like atmosphere and a trail will be constructed along the length of the channel.

Work has been completed on two projects that are part of the overall Antelope Valley Project. The Northeast Community Park (Fleming Field) project, located near 32nd and Leighton Streets, began in July 2003. This park, which was ready for play in the Spring of 2004, provides replacement ball fields for those University fields at 19th and Vine Streets that will be displaced due to the channel and roadway construction. Work began in January 2003 and was substantially completed in November 2003 on the first section of channel work between Salt Creek and the BNSF Railway.

Work began in September 2003 and was substantially completed in August 2004 on the Military Bridge and Roadway Project. This project provides a single intersection at 14th Street, Military Road and the State Fair Park entrance, which becomes the new main entrance.

Work also began in September 2003 on the Y Street Bridge and Roadway Project. This project provides a new connection of Y Street to 16th Street and provides a new routing of 17th Street in preparation for the new overpass over the BNSF Railway south of the Devaney Center. This project will be completed in the Spring of 2005.

Work began in March 2004 on the Vine Street Bridge and Roadway Project. This project provides a new bridge over the Antelope Creek on Vine Street as well as a new roadway between 17th and 22nd Streets. The project connects to a new City rehabilitation project between 22nd and 27th Streets. Work on Vine Street is scheduled for completion by August 2005.

In October 2004, work began on the Big T Project. This project will provide a new north-south overpass of the BNSF Railway south of the Devaney Center and the west leg of the new east-west overpass. Work is scheduled to be completed by December 2006.

Wastewater System

The Lincoln Wastewater System is projecting a capital improvements program in the amount of approximately \$115,996,000 over the 6-year period of fiscal year 2004-05 through fiscal year 2009-10. Of that total, approximately \$40,000 will be financed by developer contributions, approximately \$94,374,000 will be financed by revenue bonds, approximately \$2,470,000 will be financed by impact fees, approximately \$1,677,000 is to be funded with grant funds, with the remaining \$17,435,000 to come from charges for services. The majority of these dollars are needed for replacement and maintenance of existing infrastructure, new infrastructure to serve development in various basins throughout the City, and improvements to both the Theresa Street and Northeast treatment plants.

Water System

The Lincoln Water System is projecting a capital improvements program in the amount of \$108,939,000 over the 6-year period of fiscal year 2004-05 through 2009-10. Of these dollars, approximately \$92,351,000 will be financed through revenue bonds, approximately \$444,000 will be financed through developer contributions, approximately \$5,000,000 will be financed through impact fees, with the balance of \$11,144,000 coming from charges for services. The major projects contributing to these total dollars include the installation of transmission lines, replacement mains, replacement and new wells, and additional storage reservoirs.

Streets And Highways

The 2005-2010 Streets and Highways capital improvements program and Transportation improvement program identify average annual expenditures of over \$51.5 million for the next six years. Funding for these projects includes \$144 million in City revenues, \$41 million in federal aid, and \$124 million in other funds.

Infrastructure Impact Fees

The City's growth in both population and employment have created demands for new residential and nonresidential development, which in turn creates the need for additional public facilities, including water and wastewater systems, arterial streets, and neighborhood parks and trails. Under the City's current laws, taxes, fees, utility charges, and other forms of revenue generated from new development do not provide sufficient funds to finance these new facilities.

In response to these funding needs the City of Lincoln passed an ordinance to provide for the imposition of impact fees to ensure that facilities are available to serve new growth and that new development bears its proportionate share of the cost of improvements to the City's facilities. Impact fees for all types of new construction have been set and adopted by the City Council and began June, 2003.

Property Tax Collections

As of August 31, 2004, current tax collections by the County Treasurer were 96.57% of the tax levy, an increase of .37% from last year. Allocations of property tax levy by purpose are as follows:

<u>City Tax Levy By Purpose</u>	<u>2003-2004</u>	<u>2002-2003</u>	<u>2001-2002</u>
General Fund	.16962	.17370	.17798
Library	.04866	.05345	.05219
Social Security	.01431	.01616	.01527
Police and Fire Pension	.01491	.01492	.01261
General Obligation Debt	.04350	.05429	.05647

Parking Facilities

The City of Lincoln operates the following parking garages:

	<u>Number of Stalls</u>	<u>Date Opened</u>
Center Park	1,048	November, 1978
Cornhusker Square	405	December, 1983
University Square	436	April, 1990
Que Place	773	October, 1994
Carriage Park	710	February, 1995
Market Place	433	August, 2000
Haymarket	420	August, 2002

The City's parking garages have been built to promote downtown redevelopment efforts by working with private industry in providing necessary parking to various businesses in the downtown area.

Revenue generated by the parking facilities and on-street parking meters, as well as unappropriated street construction funds, are pledged for debt service of both the 2001 Parking Revenue Bonds and the 1999 Parking Revenue and Refunding Bonds. Comparative data for the past two fiscal years are presented in the following table:

	<u>2003-2004</u>	<u>2002-2003</u>
Operating Revenue	\$ 5,325,668	5,035,564
Operating Income Before Depreciation	2,592,176	2,730,932
On-Street Parking Meter Revenue	835,000	835,000
Revenue Available For Debt Service	3,427,176	3,565,932
Debt Service	2,160,650	2,160,650
Debt Service Coverage Ratio	1.59	1.65

Sanitary Landfill

The City of Lincoln owns and operates a solid waste disposal area and a construction and demolition disposal area which are subject to the U.S. Environmental Protection Agency rule *Solid Waste Disposal Facility Criteria*, which establishes closure and postclosure care requirements. As of August 31, 2004, the City estimates that it will incur costs approximating \$15 million to adhere to such requirements (see Note 17 of Notes to the Financial Statements).

Water And Wastewater System

The City's Water Utility System showed an increase in operating revenue and an increase in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Water System</u>	<u>2003-2004</u>	<u>2002-2003</u>
Operating Revenue	\$22,168,258	20,883,159
Operating Income	3,901,083	3,855,663
Revenue Available For Debt Service	10,463,376	9,902,469
Debt Service	5,526,632	5,908,489
Debt Service Coverage Ratio	1.89	1.68

The City's Wastewater Utility System showed an increase in operating revenue and an increase in operating income. Comparative data for the past two fiscal years is presented in the following table:

<u>Wastewater System</u>	<u>2003-2004</u>	<u>2002-2003</u>
Operating Revenue	\$16,011,984	14,691,905
Operating Income	1,537,738	1,486,755
Revenue Available For Debt Service	9,028,879	6,699,374
Debt Service	3,883,704	1,299,222
Debt Service Coverage Ratio	2.32	5.16

Lincoln Electric System (LES)

The City owns and operates its own electric utility system that is managed by an administrative board. Actions of the board with regard to rates, budgets, and long-term financing are subject to final review and approval by the City Council. In accordance with Section 2.55.090 of the Lincoln Municipal Code, LES operates on a January 1 - December 31, fiscal year. Audited financial information as of and for LES' fiscal year ended December 31, 2003, is included in the City's August 31, 2004, financial statements.

Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lincoln, Nebraska, for its comprehensive annual financial report for the fiscal year ended August 31, 2003. This was the twenty-first consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. I would like to express my appreciation to all members of the department who assisted and contributed to its preparation. I would also like to thank the Mayor and members of the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Don Herz
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lincoln,
Nebraska

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Egan

Executive Director

FINANCIAL SECTION



Independent Accountants' Report on Financial Statements and Supplementary Information

The Honorable Mayor
and Members of the City Council
City of Lincoln, Nebraska

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of and for the year ended August 31, 2004, which collectively comprise the City of Lincoln's basic financial statements. These financial statements are the responsibility of the City of Lincoln's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Lincoln Electric System which represent 58%, 33% and 74%, respectively, of the total assets, net assets and revenues of the business-type activities. Those financial statements were audited by other accountants whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Lincoln Electric System is based solely on the report of the other accountants. The prior-year summarized comparative financial information in these statements has been derived from the City's basic financial statements as of and for the year ended August 31, 2003, and in our report dated January 5, 2004, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lincoln, Nebraska as of August 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund, street construction fund and federal grants fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis and the schedules of funding progress and employer contributions included in *Note 13* are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other accountants have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

1221 N Street, Suite 600 Lincoln, Nebraska 68508-2030 402 473-7600 Fax 402 473-7698

1120 South 101st Street, Suite 410 Omaha, Nebraska 68124-1088 402 392-1040 Fax 402 392-1772

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lincoln's basic financial statements. The accompanying introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD,LLP

January 19, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2004. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page viii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 18).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2004, by \$1,199,927,797 (net assets). Of this amount, \$178,669,732 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$62,199,660. Of this amount \$40,934,924, or 66 percent, was an increase in governmental activities and \$21,264,736, or 34 percent, related to business-type activities.
- As of August 31, 2004, the City's governmental funds reported combined ending fund balances of \$187,197,133, an increase of \$25,255,860 in comparison with the prior year. Over half of this total amount, \$98,306,038, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2004, unreserved fund balance for the general fund was \$32,552,543, or 38 percent of total general fund expenditures.
- The City's total bonded debt increased by \$109,641,000 (19 percent) during the current fiscal year. Key factors in this increase were the issuance of \$126,310,000 in revenue bonds by Lincoln Electric System, and the issuance of \$35,000,000 in general obligation highway allocation fund bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the year ended August 31, 2004. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administrative services, public safety, streets and highways, health, planning and zoning, parks and recreation, libraries, aging services, job programs, urban development, mass transportation, engineering, self-insurance, and fleet management. The business-type activities of the City include water, wastewater and electric utilities; ambulance transport; sanitary landfill; golf courses; auditorium; and parking.

The government-wide financial statements can be found on pages 18-19 of this report.

FUND FINANCIAL STATEMENTS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

The City maintains thirty-eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, the Street Construction fund, the Federal Grants fund, and the Community Health Permanent Endowment fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the General, Street Construction, and Federal Grants major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20-27 of this report.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its parking facilities and lots; golf courses; auditorium; sanitary landfill; ambulance services; and wastewater, water, and electric systems. Internal service funds are used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its data processing, engineering, insurance, fleet management, telecommunications, and copy services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Wastewater and Electric Systems, all of which are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 32-33 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-68 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 60 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$1,199,927,797 at August 31, 2004.

By far the largest portion of the City's net assets (71 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City Of Lincoln Condensed Statements of Net Assets August 31, 2004 and 2003

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 293,558,771	239,136,689	282,564,460	297,306,590	576,123,231	536,443,279
Capital Assets	438,680,200	403,421,755	1,058,409,793	953,099,888	1,497,089,993	1,356,521,643
Total Assets	732,238,971	642,558,444	1,340,974,253	1,250,406,478	2,073,213,224	1,892,964,922
Long-Term Liabilities Outstanding	133,570,216	87,165,314	666,274,803	591,870,462	799,845,019	679,035,776
Other Liabilities	25,791,557	23,450,856	47,648,851	52,750,153	73,440,408	76,201,009
Total Liabilities	159,361,773	110,616,170	713,923,654	644,620,615	873,285,427	755,236,785
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	361,516,579	353,228,671	496,144,600	513,682,743	857,661,179	866,911,414
Restricted	147,333,934	111,928,216	16,262,952	32,461,433	163,596,886	144,389,649
Unrestricted	64,026,685	66,785,387	114,643,047	59,641,687	178,669,732	126,427,074
Total Net Assets	\$ 572,877,198	531,942,274	627,050,599	605,785,863	1,199,927,797	1,137,728,137

An additional portion of the City's net assets (14 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (15 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2004, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

City Of Lincoln
Condensed Statement of Activities
For the Years Ended August 31, 2004 and 2003

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 36,926,331	32,413,734	224,808,683	219,247,308	261,735,234	231,661,062
Operating Grants and Contributions	59,074,592	43,864,363	1,316,900	294,915	60,391,492	44,159,278
Capital Grants and Contributions	18,375,380	32,549,986	8,707,137	7,538,876	27,082,517	40,088,862
General Revenues:						
Property Tax	39,138,647	36,389,326	-	-	39,138,647	36,389,326
Sales and Use Tax	51,978,978	49,010,546	-	-	51,978,978	49,010,546
Other Taxes	22,018,572	20,190,242	2,234,490	565,790	24,253,062	20,756,032
Unrestricted Grants and Contributions	1,597,551	2,970,754	-	-	1,597,551	2,970,754
Unrestricted Investment Earnings	3,163,454	2,157,467	4,387,629	5,045,047	7,551,083	7,202,514
Other	895,935	1,478,257	373,759	164,763	1,269,694	1,643,020
Total Revenues	233,169,660	221,024,695	241,828,598	232,856,699	474,998,258	453,881,394
Expenses:						
General Government	28,475,396	26,781,326	-	-	28,475,396	26,781,326
Public Safety	66,461,665	60,312,147	-	-	66,461,665	60,312,147
Streets and Highways	24,066,450	21,627,658	-	-	24,066,450	21,627,658
Culture and Recreation	23,699,396	23,183,517	-	-	23,699,396	23,183,517
Economic Opportunity	16,778,622	18,803,783	-	-	16,778,622	18,803,783
Health and Welfare	18,122,416	17,232,211	-	-	18,122,416	17,232,211
Mass Transit	8,928,193	8,526,212	-	-	8,928,193	8,526,212
Equipment Management	1,017,244	580,423	-	-	1,017,244	580,423
Engineering Services	2,139,853	2,517,342	-	-	2,139,853	2,517,342
Interest on Long-Term Debt	3,701,385	3,510,748	-	-	3,701,385	3,510,748
Parking	-	-	4,962,873	4,512,610	4,962,873	4,512,610
Golf Courses	-	-	3,230,108	3,064,867	3,230,108	3,064,867
Auditorium	-	-	2,374,730	2,341,886	2,374,730	2,341,886
Sanitary Landfill	-	-	6,446,310	4,390,601	6,446,310	4,390,601
Ambulance Transport	-	-	3,684,221	3,905,011	3,684,221	3,905,011
Wastewater	-	-	15,461,420	13,205,150	15,461,420	13,205,150
Water	-	-	20,169,981	19,144,465	20,169,981	19,144,465
Electric	-	-	163,078,000	155,489,000	163,078,000	155,489,000
Total Expenses	193,390,620	183,075,367	219,407,643	206,053,590	412,798,263	389,128,957
Increase in Net Assets Before Transfers	39,779,040	37,949,328	22,420,955	26,803,109	62,199,995	64,752,437
Transfers	1,155,884	224,128	(1,156,219)	(224,517)	(335)	(389)
Increase in Net Assets	40,934,924	38,173,456	21,264,736	26,578,592	62,199,660	64,752,048
Net Assets - Beginning	531,942,274	493,768,818	605,785,863	579,207,271	1,137,728,137	1,072,976,089
Net Assets - Ending	\$ 572,877,198	531,942,274	627,050,599	605,785,863	1,199,927,797	1,137,728,137

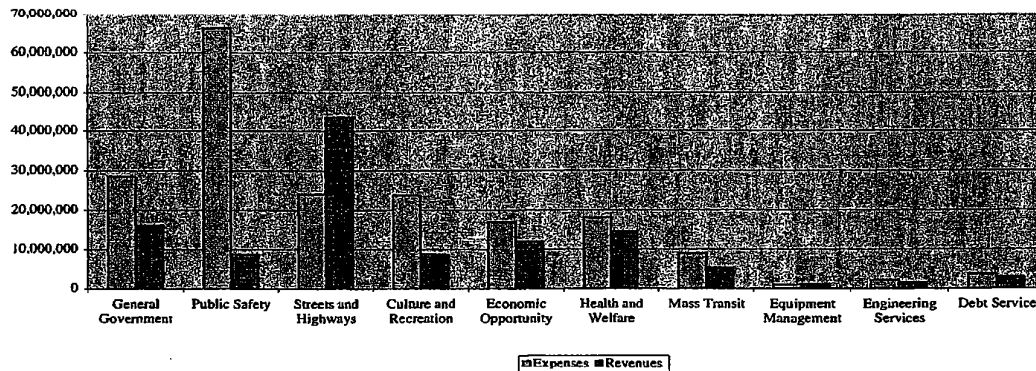
GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net assets by \$40,934,924, accounting for 66 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

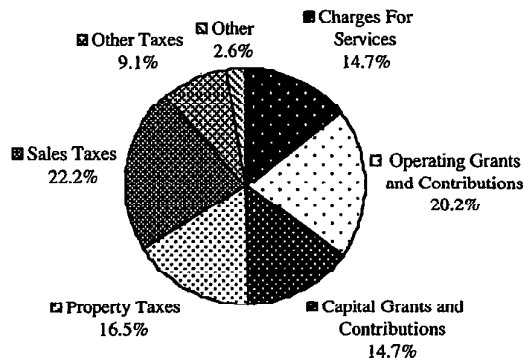
- The City's current year contribution to the Joint Antelope Valley Authority amounted to \$21,128,556.
- Property taxes increased by approximately \$2.7 million (7.5 percent) during 2004. The value created by new growth (improvements, new construction, additions of new property, and annexations) in the tax base was 4.5% over the prior tax base. Total growth in the tax base, which includes revaluations, annexations and other adjustments, was 14.5%. As a result of the percentage increase in property tax revenue in the budget being less than the percentage increase in the tax base, the tax rate per \$100 valuation decreased from \$.31452 to \$.29028 – a decrease of 7.7%.
- Net sales and use tax increased by approximately \$3 million (6 percent) during 2004. Legislation passed in 2002 and 2003 by the Nebraska Legislature expanded the sales tax base to include more services. This expansion generated additional collections beginning in December of 2003 due to implementation in October with a two month lag for the City to receive it.
- Other taxes increased by approximately \$1.8 million (9 percent). Wheel taxes increased effective January 1, 2004 and occupation taxes increased due to telecommunications collections, largely related to cell phone usage.

- Unrestricted investment earnings increased by approximately \$1 million (47%) during 2004. The City's implementation of an internal investment pool has provided for investing in more long-term securities at higher interest rates.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

Business-type activities increased the city's net assets by \$21,264,736, accounting for 34 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

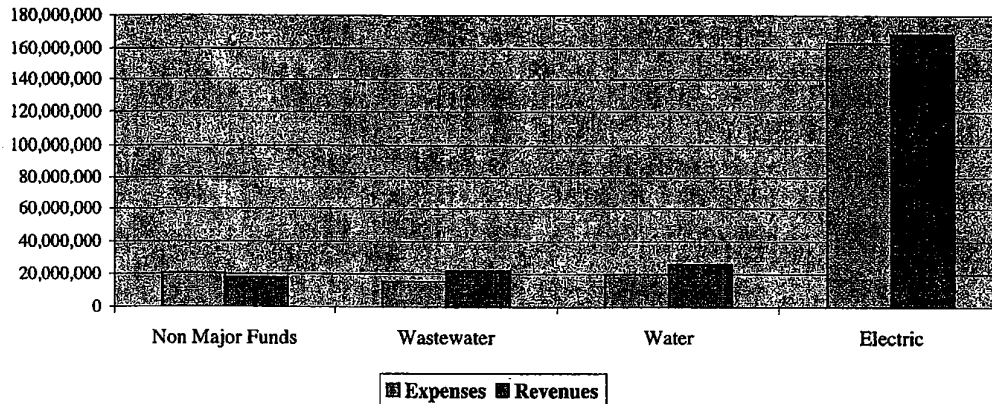
- Charges for services increased by approximately \$5.5 million, or 2.5 percent. The Water System revenues increased by \$1,285,099 (6.15%) due to a user fee increase of 7% implemented with the water billings beginning in February of 2003 and a 3% increase implemented with the water billings beginning in February 2004. Water usage for 2004 reflects an average year usage during normal weather conditions.

Wastewater revenues are also based on water usage. Even though total water pumpage for fiscal year 2004 was 868,483,750 gallons less than the prior year, an increase of 7% in user fees implemented in February 2004 resulted in an operating revenue increase of \$1,320,079 (9%).

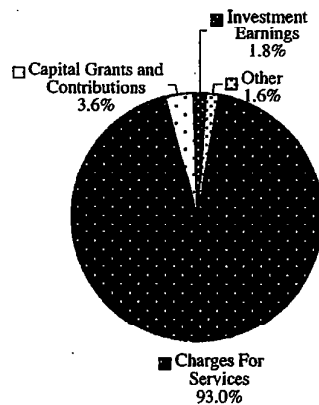
Revenues increased 2.4 percent for the Electric System with a rate increase put in place on April 1, 2003 producing most of the change. Cooling and heating degree days were below the prior year. Growth in the City remains constant with 2.2% more customers in 2003, now totaling nearly 119,000 customers.

- Lincoln Electric System (LES) operating expenses for 2003 were \$144,880,000, 7.4% above 2002 with power costs (replacement power from resource outages) and depreciation expenses providing most of the change. A settlement agreement between Nebraska Public Power District and LES related to the Power Sales Agreement for Cooper Nuclear Station was completed and signed by officials of both parties in 2002. The decommissioning fund liability established by LES was used to reduce power costs by \$4.9 million after the settlement and represents most of 2002 power costs reduction. Depreciation expense was above 2002 because of Salt Valley Generating Station starting partial commercial operation in 2003.

Expenses And Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

GOVERNMENTAL FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of August 31, 2004, the City's governmental funds reported combined ending fund balances of \$187,197,133, an increase of \$25,255,860 in comparison with the prior year. Of this total amount, 53 percent constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to:

- liquidate contracts and purchase orders of the prior period (\$31,197,144),
- pay debt service (\$15,331,663).
- generate income for the purpose of funding health and health-related programs for the citizens of Lincoln (\$37,000,000), and
- a variety of other restricted purposes (\$5,362,288).

The General Fund is the chief operating fund of the City. At August 31, 2004, the unreserved fund balance of the General Fund was \$32,552,543, while total fund balance reached \$35,973,419. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 38 percent of total general fund expenditures, while total fund balance represents 42 percent of that same amount.

The fund balance of the City's General Fund decreased by \$1,143,371 during 2004. The planned reduction in the fund balance of the General Fund is in compliance with City policy to appropriate balances that are in excess of 20 percent of the ensuing fiscal year's General Fund budget. This is accomplished by appropriating any excess over a 5-year period.

The Street Construction Fund had a total fund balance of \$38,732,945, which is to be used in the construction and maintenance of street and highways. The net increase in fund balance during 2004 in the Street Construction Fund was \$23,935,322. This increase was a result of proceeds received from the issue of \$35,000,000 of general obligation highway allocation bonds. Offsetting decreases were anticipated as a result of the Public Works Department's strategy to increase its capital construction program and to implement the acceleration of the awarding of construction contracts. An additional factor is the City's involvement in the Joint Antelope Valley projects and the related capital contributions made.

The Federal Grants Fund had a fund deficit of \$(328,692). Expenditures in the fund increased by \$2,091,260 (9 percent) over 2003, while revenues increased by \$5,006,265 (26 percent). These increases were primarily due to the City's Holmes Lake restoration projects, access Medicaid programs, and FEMA programs.

The fund balance of the Community Health Permanent Endowment Fund increased by \$1,027,195 during 2004. This increase can be attributed to a 30 percent decrease in the allocation of grant funds in the current year. The level of grant funding issued by the fund is relative to the amount of earnings realized on investments in the prior years, which has been impacted by consistently low interest rates.

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$23,650,451, \$20,161,662, \$66,414,000 and \$4,416,934, respectively, at August 31, 2004. Factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (decrease of \$33,135 in appropriations) and can be briefly summarized as follows:

- \$(91,122) in miscellaneous decreases in general government activities.
- \$(142,681) in decreases allocated to police and fire activities.
- \$(28,351) in decreases allocated to street maintenance.
- \$3,840 in increases allocated to parks and recreation.
- \$225,179 in increases allocated for General Fund transfers to other City funds.

Variances between actual General Fund revenues and expenditures and the final amended budget included the following:

- \$1,161,583 positive variance in property taxes. Actual property tax collections were 96.5% for the 2003 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$1,480,342 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance and contractual services costs, and contingency funds left unspent.
- \$1,611,536 positive variance in public safety function expenditures. This variance was the result of better than anticipated salary costs and the delay of certain capital improvement projects and purchases of capital equipment.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2004, amounts to \$1,497,089,993 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2004 was 10 percent (a 9 percent increase for governmental activities and an 11 percent increase for business-type activities).

Major capital asset events during 2004 included the following:

- A variety of street construction widening and expansion projects for existing streets and bridges continued. Along with new construction of streets and drainage projects, the construction-in-progress as of August 31, 2004, reached \$81,218,760.
- Purchase of ten buses for the StarTran transportation system at a cost of \$2,608,870.
- Addition of the City's share of the Public Building Commission's parking garage at a value of \$4,165,000.
- Construction of the Salt Valley Generating Station (SVGS) provided \$63 million to the construction work-in-progress, in addition to local construction related to an expanding customer base. The SVGS project represents a total of 165 megawatts of intermediate-load and peaking generation utilizing natural gas as the primary fuel in a simple cycle and combined cycle operation. The construction in simple-cycle mode was substantially completed in 2003 and combined-cycle operation was completed in mid 2004.

- Although the costs in 2003 and 2002 were insignificant to the balance sheet, an agreement with MidAmerican Energy Company was signed for a 100-mega-watt share of the 790 megawatt Council Bluffs #4 Unit slated to begin construction in 2003 and start commercial operation in 2007.
- Wastewater System capital assets increased by \$24,971,310 due to major project additions such as:
 - ✓ Northeast treatment plant - \$2,385,000
 - ✓ Theresa Street treatment plant - \$10,704,000
 - ✓ Trunk sewer improvements - \$7,184,000
- Water System capital assets increased by \$9,430,704 due to major project additions such as:
 - ✓ Pumping stations - \$1,123,000
 - ✓ Water distribution mains - \$1,625,000
 - ✓ Water transmission pump station and mains - \$2,745,000
 - ✓ Selected main replacements - \$785,000
 - ✓ Wellfield and water treatment plant - \$853,000
 - ✓ General system improvements - \$1,117,000

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2004 and 2003

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 44,757,798	40,506,899	14,652,983	14,371,950	59,410,781	54,878,849
Buildings	44,713,209	41,084,650	136,123,119	126,330,190	180,836,418	167,414,840
Improvements Other Than Buildings	31,350,298	31,285,551	256,349,615	231,820,817	287,699,913	263,106,368
Machinery and Equipment	30,937,792	28,980,115	10,726,204	10,462,767	41,663,996	39,442,882
Utility Plant	-	-	501,468,000	405,775,000	501,468,000	405,775,000
Infrastructure	201,785,086	191,786,564	-	-	201,785,086	191,786,564
Construction-In-progress	85,135,927	69,777,976	139,089,872	164,339,164	224,225,799	234,117,140
Total	\$ 438,680,200	403,421,755	1,058,409,793	953,099,888	1,497,089,993	1,356,521,643

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 49-51 of this report.

LONG-TERM DEBT

At August 31, 2004, the City of Lincoln had total bonded debt outstanding of \$681,530,000. Of this amount, \$98,815,000 comprises debt backed by the full faith and credit of the City and \$100,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

City Of Lincoln
Outstanding Bonded Debt
(dollar amounts in thousands)
August 31, 2004 and 2003

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$ 98,815	61,554	-	-	98,815	61,554
Special Assessment Debt With Governmental Commitment	100	205	-	-	100	205
Tax-supported Revenue Bonds	10,255	10,810	-	-	10,255	10,810
Revenue Bonds	-	-	572,360	499,320	572,360	499,320
Total	\$ 109,170	72,569	572,360	499,320	681,530	571,889

The City's total bonded debt increased by \$109,641,000 (19 percent) during 2004. The key factor in this increase was the issuance of \$126,300,000 in revenue bonds by Lincoln Electric System to refund \$45.3 million of 1993 revenue bonds and provide construction funds to complete the SVGS and maintain the construction schedule of Council Bluffs #4 Unit.

The City also issued \$35,000,000 in general obligation bonds to finance items in its 2004-2009 street capital improvements program including (1) rehabilitation of arterial and residential streets, (2) studies, design,

easements and right-of-way acquisitions, (3) miscellaneous emergency and safety projects and operating improvements, (4) portions of the South Beltway project, and (5) improvements to South 14th Street, West Fletcher, and portions of the Antelope Valley Project.

The City maintains the following credit ratings:

	Moody's Investors <u>Service</u>	Standard And <u>Poor's</u>	Fitch Investors <u>Service</u>
General Obligation Bonds	Aaa	AAA	
Municipal Infrastructure			
Redevelopment Fund Bonds	Aa2	AAA	
Antelope Valley Project Bonds	Aa2	AA	
Water Revenue Bonds	Aa2	AA+	
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	
Underlying	Aa2	AA+	
Parking Revenue Bonds	A2	A	
Electric Revenue			
1998 Bonds	Aa2	AA	AA
2001 Bonds	Aa2	AA	AA
2002 Bonds	Aa2	AA	AA
2003 Bonds	Aa2	AA	AA
Commercial Paper – tax exempt		A1+	F1+

Under the City's Home Rule Charter, there is no legal debt limit.

Additional information on the City's long-term debt can be found in Note 9 of the notes to the financial statements on pages 52-57 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenue required to fund the 2005 budget increased \$1,585,694 or 4.8% over the prior year. Total growth in the tax base is 3.1%. The estimated impact on the property tax rate in order to fund services and debt service is expected to be an increase of 1.6%.
- Sales tax collections for 2004 were below projections. The expansion of the sales tax base affected sales tax collection for only nine months of that year. During 2005 the City will receive the benefit of the sales tax base expansion for all twelve months, estimated to provide an additional \$360,000 in revenues. 2005 projections reflect a 5.1% increase over 2004 projections.
- Occupation tax revenues are expected to decrease by 4.8% in relation to telecommunications taxes. In addition, projections for 2004 included estimates of a one-time payment from the City's cable television provider over amounts owed the City that were in dispute.
- Recreation receipts are expected to increase by \$116,797 (6.2%) due to routine increases in fees for various programs and expanded recreation services, some of which are at new sites and generate new revenue.
- An increase of 911 Surcharge on phone lines from \$.75 to \$1.00 per month became effective January 1, 2005. Revenue is used for operations as well as capital improvements.
- A 5% water rate increase and a 7% wastewater rate increase were adopted by the City Council and become effective January of 2005.

All of these factors were considered in preparing the City's budget for the 2005 fiscal year.

At August 31, 2004, unreserved fund balance in the general fund amounted to \$32,552,543. The City of Lincoln has appropriated \$5,085,200 of this amount for spending in the 2005 fiscal year budget. The use of available fund balance aids the City in avoiding the need to raise additional property taxes during 2005.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Lincoln's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Lincoln, Finance Department, 555 South 10th Street, Lincoln, NE 68508.

BASIC FINANCIAL STATEMENTS

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CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
AUGUST 31, 2004
With Summarized Financial Information as of August 31, 2003

	Governmental Activities	Business Activities	Totals	
			2004	2003
ASSETS				
Cash and Cash Equivalents	\$ 32,658,105	16,933,589	49,591,694	40,039,462
Investments	125,036,946	60,108,260	185,145,206	138,133,923
Invested Securities Lending Collateral	7,158,131	-	7,158,131	7,414,973
Receivables, (Net of Allowance for Uncollectibles)	11,701,063	27,475,761	39,176,824	41,263,543
Internal Balances	(46,831)	46,831	-	-
Due from Other Governments	29,247,591	6,334	29,253,925	20,653,313
Inventories	1,568,349	8,057,187	9,625,536	8,493,070
Plant Operation Assets	-	4,095,000	4,095,000	3,784,000
Prepaid Items	417,787	943,301	1,361,088	1,119,350
Deferred Charges and Other Assets	815,458	14,715,189	15,530,647	21,226,751
Restricted Assets:				
Cash and Cash Equivalents	-	829,896	829,896	744,847
Investments	37,160,000	148,896,475	186,056,475	226,556,829
Receivables	-	456,637	456,637	299,602
Investment in Joint Venture	47,842,172	-	47,842,172	26,713,616
Capital Assets:				
Non-depreciable	129,893,725	153,742,855	283,636,580	288,995,989
Depreciable (Net)	308,786,475	904,666,938	1,213,453,413	1,067,525,654
Total Assets	732,238,971	1,340,974,253	2,073,213,224	1,892,964,922
LIABILITIES				
Accounts Payable	9,853,179	18,197,201	28,050,380	26,003,046
Accrued Liabilities	5,663,573	9,059,392	14,722,965	13,315,434
Due to Other Governments	384,684	172,871	557,555	1,255,334
Unearned Revenue	1,222,292	158,288	1,380,580	1,093,528
Obligations under Securities Lending	7,158,131	-	7,158,131	7,414,973
Other Liabilities	1,405,448	6,689,547	8,094,995	6,480,187
Matured Bonds and Interest Payable	104,250	-	104,250	104,250
Liabilities Payable from Restricted Assets	-	13,371,552	13,371,552	20,534,257
Noncurrent Liabilities:				
Compensated Absences:				
Payable within One Year	5,594,820	770,044	6,364,864	5,863,144
Payable in More Than One Year	2,321,025	326,394	2,647,419	2,392,853
Claims and Judgements:				
Payable within One Year	2,335,986	-	2,335,986	2,429,395
Payable in More Than One Year	2,659,135	-	2,659,135	2,714,445
Bonds, Notes and Leases Payable:				
Due within One Year	5,775,790	20,332,962	26,108,752	23,988,841
Due in More Than One Year	113,453,077	637,487,403	750,940,480	635,154,098
Deferred Credits and Other	-	120,000	120,000	119,000
Net Pension Obligation	1,430,383	-	1,430,383	130,000
Accrued Landfill Closure/Postclosure Care Costs	-	7,238,000	7,238,000	6,244,000
Total Liabilities	159,361,773	713,923,654	873,285,427	755,236,785
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	361,516,579	496,144,600	857,661,179	866,911,414
Restricted for:				
Debt Service, Net of Related Debt	16,468,120	15,008,907	31,477,027	18,882,599
Capital Projects	83,998,941	1,241,845	85,240,786	79,055,307
Other	88,000	12,200	100,200	820,475
Trust Donations:				
Expendable	1,593,129	-	1,593,129	1,472,719
Nonexpendable	160,000	-	160,000	160,000
Health Care:				
Expendable	8,025,744	-	8,025,744	6,998,549
Nonexpendable	37,000,000	-	37,000,000	37,000,000
Unrestricted	64,026,685	114,643,047	178,669,732	126,427,074
Total Net Assets	\$ 572,877,198	627,050,599	1,199,927,797	1,137,728,137

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2004
 With Summarized Financial Information for the Year Ended August 31, 2003

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals	
							2004	2003
Functions/Programs								
Governmental Activities:								
General Government	\$ (28,475,396)	14,507,882	1,355,675	288,935	(12,322,904)	-	(12,322,904)	(11,226,732)
Public Safety	(66,461,665)	6,136,393	2,648,236	7,499	(57,669,537)	-	(57,669,537)	(52,521,499)
Streets and Highways	(24,066,450)	4,191,241	25,705,025	13,612,739	19,442,555	-	19,442,555	23,383,475
Culture and Recreation	(23,699,396)	2,792,436	3,039,045	2,980,904	(14,887,011)	-	(14,887,011)	(17,487,165)
Economic Opportunity	(16,778,622)	2,573,607	9,406,861	17,963	(4,780,191)	-	(4,780,191)	(5,225,814)
Health and Welfare	(18,122,416)	2,979,036	11,521,123	-	(3,622,257)	-	(3,622,257)	(4,845,941)
Mass Transit	(8,928,193)	1,463,224	3,827,318	-	(3,637,651)	-	(3,637,651)	(5,757,335)
Equipment Management	(1,017,244)	1,044,293	-	-	27,049	-	27,049	557,001
Engineering Services	(2,139,853)	1,006,874	51,309	376,565	(705,105)	-	(705,105)	(851,859)
Utility Services	-	-	-	-	-	-	-	77,575
Interest on Long-Term Debt	(3,701,385)	231,565	1,520,000	1,090,775	(859,045)	-	(859,045)	(348,970)
Total Governmental Activities	(193,390,620)	36,926,551	59,074,592	18,375,380	(79,014,097)	-	(79,014,097)	(74,247,264)
Business-Type Activities:								
Parking Lots	(231,572)	202,123	-	-	-	(29,449)	(29,449)	24,070
Golf	(3,230,108)	2,895,132	-	12,716	-	(322,260)	(322,260)	(290,421)
Parking Facilities	(4,731,301)	5,320,210	-	-	-	588,909	588,909	704,769
Municipal Auditorium	(2,374,730)	1,601,341	-	32,350	-	(741,039)	(741,039)	(629,772)
Sanitary Landfill	(6,446,310)	4,299,079	-	42,510	-	(2,104,721)	(2,104,721)	1,015,021
Emergency Medical Services	(3,684,221)	3,578,560	-	-	-	(105,661)	(105,661)	18,257
Wastewater System	(15,461,420)	15,980,045	1,316,900	4,501,573	-	6,337,098	6,337,098	5,824,487
Water System	(20,169,981)	22,064,193	-	4,117,988	-	6,012,200	6,012,200	4,876,098
Electric System	(163,078,000)	168,868,000	-	-	-	5,790,000	5,790,000	9,485,000
Total Business-Type Activities	(219,407,643)	224,808,683	1,316,900	8,707,137	-	15,425,077	15,425,077	21,027,509
Total Primary Government	\$ (412,798,263)	261,735,234	60,391,492	27,082,517	(79,014,097)	15,425,077	(63,589,020)	(53,219,755)
General Revenues:								
Property Tax					39,138,647	-	39,138,647	36,389,326
Motor Vehicle Tax					4,055,313	-	4,055,313	3,823,011
Wheel Tax					8,634,929	-	8,634,929	7,767,169
Sales and Use Tax					51,978,978	-	51,978,978	49,010,546
Sundry and In Lieu Tax					36,735	-	36,735	44,810
Occupation Tax					9,291,595	2,234,490	11,526,085	9,121,042
Unrestricted Grants and Contributions					1,597,551	-	1,597,551	2,970,754
Unrestricted Investment Earnings					3,163,454	4,387,629	7,551,083	7,202,514
Miscellaneous General Revenues					590,961	80,033	670,994	497,324
Gain on Sale of Capital Assets					304,974	293,726	598,700	1,145,696
Transfers					1,155,884	(1,156,219)	(335)	(389)
Total General Revenues and Transfers					119,949,021	5,839,659	125,788,680	117,971,803
Change in Net Assets					40,934,924	21,264,736	62,199,660	64,752,048
Net Assets - Beginning					531,942,274	603,783,803	1,137,728,157	1,072,976,089
Net Assets - Ending					\$ 572,877,198	627,050,539	1,199,927,797	1,137,728,137

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2004

	General Fund	Street Construction Fund	Federal Grants Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total
ASSETS						
Cash and Cash Equivalents	\$ 6,632,851	7,415,970	2,026	1,774,886	13,589,573	29,415,306
Investments	18,544,417	30,061,944	-	43,079,904	57,363,770	149,050,035
Invested Securities Lending Collateral	-	-	-	7,158,131	-	7,158,131
Receivables, (Net of Allowance for Uncollectibles)	4,870,139	350,657	12,086	196,585	5,864,184	11,293,651
Due from Other Funds	1,765,073	2,158,362	3,000	-	559,515	4,485,950
Due from Other Governments	9,736,917	14,797,552	2,155,983	-	2,015,582	28,706,034
Assets Held for Resale	-	-	-	-	88,000	88,000
Inventories	307,603	56,305	-	-	752,669	1,116,577
Prepaid Items	243,272	-	-	-	-	243,272
Total Assets	<u>42,100,272</u>	<u>54,840,790</u>	<u>2,173,095</u>	<u>52,209,506</u>	<u>80,233,293</u>	<u>231,556,956</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts Payable	1,169,818	3,344,671	765,960	23,080	1,988,024	7,291,553
Contracts Payable	-	1,368,045	-	-	645,730	2,013,775
Accrued Liabilities	2,880,416	137,504	386,589	2,468	1,702,782	5,109,759
Due to Other Funds	684,868	74,316	248,846	83	4,254,345	5,262,558
Due to Other Governments	52,153	7,122	254,305	-	66,741	380,321
Unearned Revenue	-	-	-	-	275,696	275,696
Obligations under Securities Lending	-	-	-	7,158,131	-	7,158,131
Deferred Revenue	1,339,598	11,176,187	845,987	-	3,402,008	16,763,780
Matured Bonds and Interest Payable	-	-	-	-	104,250	104,250
Total Liabilities	<u>6,126,853</u>	<u>16,107,845</u>	<u>2,501,787</u>	<u>7,183,762</u>	<u>12,439,576</u>	<u>44,359,823</u>
Fund Balances (Deficits):						
Reserved for:						
Encumbrances	967,203	21,098,139	2,087,844	-	7,043,958	31,197,144
Inventories	307,603	56,305	-	-	752,669	1,116,577
Prepaid Items	243,272	-	-	-	-	243,272
Improvements	1,902,798	-	-	-	258,512	2,161,310
Debt Service	-	-	-	-	15,331,663	15,331,663
Trust Donations	-	-	-	-	1,753,129	1,753,129
Resale Assets	-	-	-	-	88,000	88,000
Health Care (non-expendable)	-	-	-	37,000,000	-	37,000,000
Unreserved, Reported in:						
General Fund:						
Designated for Debt Service	378,822	-	-	-	-	378,822
Designated for Subsequent Years Expenditures	7,233,409	-	-	-	-	7,233,409
Undesignated	24,940,312	-	-	-	-	24,940,312
Special Revenue Funds:						
Designated for Subsequent Years Expenditures	-	552,012	-	-	1,496,837	2,048,849
Undesignated	-	17,026,489	(2,416,536)	-	15,104,578	29,714,481
Debt Service Funds	-	-	-	-	7,344,884	7,344,884
Capital Projects Funds	-	-	-	-	18,619,537	18,619,537
Permanent Fund	-	-	-	8,025,744	-	8,025,744
Total Fund Balances (Deficits)	<u>35,973,419</u>	<u>38,732,945</u>	<u>(328,692)</u>	<u>45,025,744</u>	<u>67,793,717</u>	<u>187,197,133</u>
Total Liabilities and Fund Balances	<u>\$ 42,100,272</u>	<u>\$ 54,840,790</u>	<u>\$ 2,173,095</u>	<u>\$ 52,209,506</u>	<u>\$ 80,233,293</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.	429,895,369
Investment in joint venture is not a financial resource and, therefore, not reported in the funds.	47,842,172
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.	16,763,780
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	19,741,077
Accrued pension contribution liability requires the use of unavailable financial resources and, therefore, is not reported in the funds.	(61,035)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds.	(128,501,298)
Net assets of governmental activities	\$ 572,877,198

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2004

	General Fund	Street Construction Fund	Federal Grants Fund	Community Health Permanent Endowment Fund	Other Governmental Funds	Total
REVENUES						
Taxes:						
Property	\$ 22,068,142	-	-	-	16,757,138	38,825,280
Motor Vehicle	4,055,313	-	-	-	-	4,055,313
Wheel	-	-	-	-	8,634,929	8,634,929
Sales and Use	51,978,978	-	-	-	-	51,978,978
Sundry and In Lieu	20,210	-	-	-	10,984	31,194
Occupation	9,265,448	-	-	-	-	9,265,448
Special Assessment	-	-	-	-	1,965,820	1,965,820
Intergovernmental	2,889,708	24,313,752	21,466,761	2,500	9,946,978	58,619,699
Permits and Fees	3,016,632	2,412,301	553,920	-	9,610,473	15,593,326
Reimbursement for Services	5,140,327	28,629	527,977	-	625,937	6,322,870
Program Income	-	-	1,808,012	-	-	1,808,012
Investment Earnings	655,726	613,767	16,961	2,408,742	1,512,515	5,207,711
Donations	740,441	-	100,798	11,050	917,488	1,769,777
Keno Proceeds	-	-	-	-	3,331,968	3,331,968
Miscellaneous	493,380	1,661,260	5,959	81,165	1,036,690	3,278,763
Total Revenues	100,324,314	29,029,709	24,480,388	2,503,757	54,350,920	210,689,088
EXPENDITURES						
Current:						
General Government	24,385,100	-	529,899	-	5,969,545	30,884,544
Public Safety	44,737,993	-	2,781,687	-	7,733,240	55,272,920
Streets and Highways	5,554,330	5,053,543	42,510	-	2,983,519	13,633,902
Culture and Recreation	10,531,483	-	3,823,324	-	7,954,133	22,308,940
Economic Opportunity	326,158	-	9,906,518	-	4,495,834	14,728,510
Health and Welfare	536,337	-	7,254,446	1,476,562	9,277,322	18,544,667
Mass Transit	-	-	123,337	-	10,401,753	10,525,090
Debt Service	-	-	-	-	7,914,521	7,914,521
Capital Outlay	-	42,505,523	-	-	15,672,410	58,177,933
Total Expenditures	86,091,401	47,559,066	24,461,721	1,476,562	72,402,277	231,991,027
Excess (Deficiency) of Revenues Over (Under) Expenditures	14,232,913	(18,529,357)	18,667	1,027,195	(18,051,357)	(21,301,939)
OTHER FINANCING SOURCES (USES)						
Transfers In	1,488,099	7,502,643	767,195	-	22,613,661	32,371,598
Transfers Out	(18,830,731)	(1,949,786)	(63,250)	-	(10,819,934)	(31,663,701)
Issuance of Debt	1,930,000	35,000,000	-	-	6,869,999	43,799,999
Premiums / Discounts on Debt Issued	(4,976)	1,911,822	-	-	6,088	1,912,934
Sale of Capital Assets	41,324	-	-	-	93,645	136,969
Total Other Financing Sources (Uses)	(15,376,284)	42,464,679	703,945	-	18,765,459	46,557,799
Net Change in Fund Balances	(1,143,371)	23,935,322	722,612	1,027,195	714,102	25,255,860
Fund Balances (Deficits) - Beginning	37,116,790	14,797,623	(1,051,304)	43,998,549	67,079,615	161,941,273
Fund Balances (Deficits) - Ending	\$ 35,973,419	38,732,945	(328,692)	45,025,744	67,793,717	187,197,133

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2004

Amounts reported for governmental activities in the statement of activities
are different because:

Net change in fund balances - total governmental funds	\$ 25,255,860
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	22,828,271
The net effect of various miscellaneous transactions involving capital contributions is to increase net assets.	8,200,637
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	6,215,960
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(40,143,143)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,476,716)
Changes in the net pension asset/obligation do not represent financial activity in governmental funds.	(1,300,383)
Changes in the interest in the underlying capital assets of the joint venture do not represent financial activity in governmental funds.	21,128,556
Some pension contribution expenses require the use of unavailable financial resources and, therefore, are not reported as expenditures in governmental funds.	(18,514)
Internal service funds are used by management to charge the costs of certain services to individual funds.	<u>244,396</u>
Change in net assets of governmental activities	<u>\$ 40,934,924</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Real Estate and Personal Property Tax	\$ 24,244,358	24,244,358	25,405,941	1,161,583
Taxes Collected by Others	51,996,219	51,996,219	51,869,477	(126,742)
Sundry Taxes and In Lieu	31,621	31,621	25,345	(6,276)
Occupation Taxes	9,651,923	9,651,923	9,257,597	(394,326)
Special Assessment	6,900	6,900	1,091	(5,809)
Intergovernmental	2,940,884	2,940,884	2,790,690	(150,194)
Permits and Fees	2,578,300	2,578,300	2,482,349	(95,951)
Reimbursement for Services	2,285,248	2,285,248	2,101,822	(183,426)
Court Fees	668,500	668,500	521,252	(147,248)
Recreation Receipts	1,882,956	1,882,956	1,687,283	(195,673)
Investment Earnings	424,139	424,139	603,092	178,953
Donations	758,580	758,580	758,580	-
Rental Income	368,938	368,938	448,213	79,275
Parking Revenue	835,000	835,000	835,000	-
Miscellaneous	303,328	303,328	775,557	472,229
Total Revenues	98,976,894	98,976,894	99,563,289	586,395
Expenditures:				
General Government:				
Legislative	284,345	284,345	220,477	63,868
Executive	1,280,271	1,280,271	1,219,942	60,329
Financial Administration	2,235,608	2,270,608	2,082,124	188,484
Law	1,939,879	1,939,879	1,861,402	78,477
Personnel Administration	788,194	793,194	790,806	2,388
Planning and Zoning	1,687,925	1,687,925	1,434,819	253,106
Urban Development	742,608	750,517	1,103,143	(352,626)
Miscellaneous	17,165,021	17,025,990	15,545,648	1,480,342
Total General Government	26,123,851	26,032,729	24,258,361	1,774,368
Public Safety:				
Police	26,514,697	26,437,326	25,825,239	612,087
Fire	17,980,398	17,915,088	16,959,886	955,202
Traffic Engineering	1,568,510	1,568,510	1,524,263	44,247
Total Public Safety	46,063,605	45,920,924	44,309,388	1,611,536
Streets and Highways:				
Street Maintenance	2,591,682	2,563,331	2,303,074	260,257
Street Lighting	3,482,600	3,482,600	3,495,360	(12,760)
Total Streets and Highways	6,074,282	6,045,931	5,798,434	247,497
Culture and Recreation:				
Parks and Recreation	10,501,678	10,505,518	10,366,285	139,233
Libraries	75,140	75,140	75,140	-
Total Culture and Recreation	10,576,818	10,580,658	10,441,425	139,233
Economic Opportunity:				
Lincoln Area Agency on Aging	330,344	330,344	330,344	-
Health and Welfare:				
Lincoln/Lancaster County Health	520,774	520,774	520,774	-
Total Expenditures	89,689,674	89,431,360	85,658,726	3,772,634
Excess of Revenues Over Expenditures	9,287,220	9,545,534	13,904,563	4,359,029
Other Financing Sources (Uses):				
Transfers In	1,566,885	1,566,885	1,484,305	(82,580)
Transfers Out	(22,633,406)	(22,858,585)	(19,401,649)	3,456,936
Proceeds from Issuance of Debt	1,930,000	1,930,000	1,930,000	-
Premiums / Discounts on Debt Issued	-	-	(4,976)	(4,976)
Sale of Capital Assets	38,543	38,543	41,324	2,781
Total Other Financing Sources (Uses)	(19,097,978)	(19,323,157)	(15,950,996)	3,372,161
Net Change in Fund Balances	(9,810,758)	(9,777,623)	(2,046,433)	7,731,190
Fund Balances - Beginning	29,511,816	29,511,816	29,511,816	-
Fund Balances - Ending	\$ 19,701,058	19,734,193	27,465,383	7,731,190

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STREET CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Intergovernmental	\$ 15,000,000	15,000,000	15,179,200	179,200
Permits and Fees	-	-	2,417,587	2,417,587
Reimbursement for Services	225,000	225,000	18,025	(206,975)
Investment Earnings	300,000	300,000	251,995	(48,005)
Miscellaneous	-	-	1,034	1,034
Total Revenues	15,525,000	15,525,000	17,867,841	2,342,841
Expenditures -- Streets and Highways:				
Personal Services	2,920,800	2,920,800	2,889,559	31,241
Materials and Supplies	426,200	426,200	441,117	(14,917)
Other Services and Charges	1,794,457	1,794,457	1,655,677	138,780
Capital Outlay	113,050	113,050	94,350	18,700
Total Expenditures	5,254,507	5,254,507	5,080,703	173,804
Excess of Revenues Over Expenditures	10,270,493	10,270,493	12,787,138	2,516,645
Other Financing Sources (Uses):				
Transfers In	7,502,643	7,502,643	7,502,643	-
Transfers Out	(1,949,786)	(1,949,786)	(1,949,786)	-
Issuance of Debt	35,000,000	35,000,000	35,000,000	-
Premiums / Discounts on Debt Issued	-	-	1,911,822	1,911,822
Total Other Financing Sources (Uses)	40,552,857	40,552,857	42,464,679	1,911,822
Net Change in Fund Balances	50,823,350	50,823,350	55,251,817	4,428,467
Amount Not Required to be Budgeted	(29,747,782)	(29,747,782)	(29,747,782)	-
Fund Balances - Beginning	10,304,752	10,304,752	10,304,752	-
Fund Balances - Ending	\$ 31,380,320	31,380,320	35,808,787	4,428,467

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
FEDERAL GRANTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
FOR THE YEAR ENDED AUGUST 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Intergovernmental	\$ 21,626,671	21,626,671	21,501,669	(125,002)
Permits and Fees	552,584	552,584	552,584	-
Reimbursement for Services	204,044	204,044	204,044	-
Client Contributions	1,064	1,064	1,064	-
Program Income	1,219,849	1,219,849	1,808,012	588,163
Recreation Receipts	216,764	216,764	216,764	-
Investment Earnings	14,524	14,524	15,570	1,046
Donations	100,798	100,798	100,798	-
Rental Income	75,000	75,000	100,551	25,551
Miscellaneous	5,851	5,851	5,949	98
Total Revenues	<u>24,017,149</u>	<u>24,017,149</u>	<u>24,507,005</u>	<u>489,856</u>
Expenditures:				
General Government:				
Materials and Supplies	938	938	938	-
Other Services and Charges	508,573	508,573	508,573	-
Capital Outlay	36,771	36,771	36,771	-
Total General Government	<u>546,282</u>	<u>546,282</u>	<u>546,282</u>	<u>-</u>
Public Safety:				
Personal Services	878,389	878,389	878,389	-
Materials and Supplies	109,207	109,207	109,207	-
Other Services and Charges	654,551	654,551	654,551	-
Capital Outlay	1,067,970	1,067,970	1,067,970	-
Total Public Safety	<u>2,710,117</u>	<u>2,710,117</u>	<u>2,710,117</u>	<u>-</u>
Culture and Recreation:				
Personal Services	395,471	395,471	395,471	-
Materials and Supplies	38,728	38,728	38,728	-
Other Services and Charges	222,951	222,951	222,951	-
Capital Outlay	3,503,769	3,503,769	3,503,769	-
Total Culture and Recreation	<u>4,160,919</u>	<u>4,160,919</u>	<u>4,160,919</u>	<u>-</u>
Economic Opportunity:				
Personal Services	3,524,736	3,516,467	3,525,345	(8,878)
Materials and Supplies	133,070	133,070	133,886	(816)
Other Services and Charges	1,919,576	1,949,023	2,106,762	(157,739)
Capital Outlay	476,527	1,037,449	253,898	783,551
Loans and Grants	3,970,084	5,259,410	4,039,685	1,219,725
Total Economic Opportunity	<u>10,023,993</u>	<u>11,895,419</u>	<u>10,059,576</u>	<u>1,835,843</u>

(Continued)

(Federal Grants Fund, Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Health and Welfare:				
Personal Services	3,521,898	3,521,898	3,521,898	-
Materials and Supplies	197,032	197,032	197,032	-
Other Services and Charges	3,264,167	3,264,167	3,264,167	-
Capital Outlay	448,440	448,440	448,440	-
Loans and Grants	86,827	86,827	86,827	-
Total Health and Welfare	<u>7,518,364</u>	<u>7,518,364</u>	<u>7,518,364</u>	<u>-</u>
Mass Transit:				
Personal Services	116,649	116,649	116,649	-
Other Services and Charges	4,732	4,732	4,732	-
Capital Outlay	477	477	477	-
Total Mass Transit	<u>121,858</u>	<u>121,858</u>	<u>121,858</u>	<u>-</u>
Total Expenditures	<u>25,081,533</u>	<u>26,952,959</u>	<u>25,117,116</u>	<u>1,835,843</u>
Deficiency of Revenues Under Expenditures	<u>(1,064,384)</u>	<u>(2,935,810)</u>	<u>(610,111)</u>	<u>2,325,699</u>
Other Financing Sources (Uses):				
Transfers In	585,215	585,215	767,195	181,980
Transfers Out	<u>(6,515)</u>	<u>(6,515)</u>	<u>(59,515)</u>	<u>(53,000)</u>
Total Other Financing Sources (Uses)	<u>578,700</u>	<u>578,700</u>	<u>707,680</u>	<u>128,980</u>
Net Change in Fund Balances	(485,684)	(2,357,110)	97,569	2,454,679
Fund Deficits - Beginning	<u>(1,313,919)</u>	<u>(1,313,919)</u>	<u>(1,313,919)</u>	<u>-</u>
Fund Deficits - Ending	<u>\$ (1,799,603)</u>	<u>(3,671,029)</u>	<u>(1,216,350)</u>	<u>2,454,679</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2004

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total	Funds
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$ 10,553,449	3,320,310	587,000	2,472,830	16,933,589	3,242,799
Investments	-	-	50,373,000	9,735,260	60,108,260	13,146,911
Accounts Receivable, (Net of Allowance for Uncollectibles)	1,952,321	2,190,211	7,247,000	2,517,872	13,907,404	325,360
Accrued Interest Receivable	-	-	669,000	64,458	733,458	82,052
Unbilled Revenues	1,621,092	3,108,807	8,105,000	-	12,834,899	-
Due from Other Funds	337,721	873,440	-	34,510	1,245,671	766,128
Due from Other Governments	-	-	-	6,334	6,334	541,557
Inventories	107,225	785,146	6,982,000	182,516	8,057,187	451,772
Plant Operation Assets	-	-	4,095,000	-	4,095,000	-
Prepaid Expenses	-	-	866,000	77,301	943,301	174,515
Total Current Assets	14,571,808	10,278,214	78,924,000	15,091,081	118,865,103	18,731,094
Noncurrent Assets:						
Restricted Assets:						
Cash and Cash Equivalents	-	-	6,000	823,896	829,896	-
Investments	48,042,522	16,698,144	81,828,000	2,327,809	148,896,475	-
Accounts Receivable	-	-	-	3,556	3,556	-
Accrued Interest Receivable	304,840	118,730	-	29,511	453,081	-
Total Restricted Assets	48,347,362	16,816,874	81,834,000	3,184,772	150,183,008	-
Deferred Charges	594,824	532,589	13,029,000	558,776	14,715,189	-
Capital Assets:						
Land	2,280,164	4,712,695	-	7,660,124	14,652,983	48,250
Buildings	49,588,684	94,376,266	-	49,008,455	192,973,405	373,146
Improvements Other Than Buildings	129,447,020	197,952,935	-	23,821,838	351,221,793	1,163,150
Machinery and Equipment	9,265,158	7,122,264	-	9,565,112	25,952,534	20,192,208
Utility Plant	-	-	768,971,000	-	768,971,000	-
Construction in Progress	32,311,329	1,994,124	102,833,000	1,951,419	139,089,872	-
Less Accumulated Depreciation	(62,337,873)	(74,794,641)	(267,503,000)	(29,816,280)	(434,451,794)	(12,991,932)
Total Capital Assets, Net	160,554,482	231,363,643	604,301,000	62,190,668	1,058,409,793	8,784,831
Total Assets	224,068,476	258,991,320	778,088,000	81,025,297	1,342,173,093	27,515,925
LIABILITIES						
Current Liabilities (Payable from Current Assets):						
Accounts Payable	479,632	875,792	8,991,000	1,097,746	11,444,170	547,851
Construction Contracts	5,130,202	1,622,829	-	-	6,753,031	-
Accrued Liabilities	424,976	692,699	7,674,000	267,717	9,059,392	492,779
Accrued Compensated Absences	255,736	288,304	-	226,004	770,044	559,532
Due to Other Funds	-	-	-	421,950	421,950	36,351
Due to Other Governments	-	-	-	172,871	172,871	4,363
Unearned Revenue	-	-	-	158,288	158,288	946,590
Claims	-	-	-	-	-	2,335,986
Accrued Interest	502,038	95,736	-	7,773	605,547	-
Current Portion of Capital Lease	-	-	-	417,962	417,962	-
Current Portion of Long-Term Debt	1,500,000	4,000,000	-	-	5,500,000	-
Other	-	-	6,084,000	-	6,084,000	-
Total Current Liabilities (Payable from Current Assets)	8,292,584	7,575,360	22,749,000	2,770,311	41,387,255	4,923,458
Current Liabilities (Payable from Restricted Assets):						
Accounts Payable	-	-	-	972	972	-
Construction Contracts	-	-	6,327,000	-	6,327,000	-
Arbitrage Rebate	-	-	-	40,666	40,666	-
Accrued Interest	-	-	6,964,000	38,914	7,002,914	-
Current Portion of Long-Term Debt	-	-	12,980,000	1,435,000	14,415,000	-
Total Current Liabilities (Payable from Restricted Assets)	-	-	26,271,000	1,515,552	27,786,552	-
Noncurrent Liabilities:						
Due to Other Funds	-	-	-	776,890	776,890	-
Accrued Compensated Absences	114,999	186,386	-	25,009	326,394	192,255
Claims	-	-	-	-	-	2,659,135
Long-Term Debt, Net	53,878,302	44,681,079	429,960,000	17,859,076	546,178,457	-
Capital Lease Payable	-	-	-	1,135,946	1,135,946	-
Commercial Paper Notes Payable	-	-	90,173,000	-	90,173,000	-
Deferred Credits and Other	-	-	120,000	-	120,000	-
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	7,238,000	7,238,000	-
Total Noncurrent Liabilities	53,793,301	44,867,465	520,253,000	27,034,921	645,948,687	2,851,390
Total Liabilities	62,085,885	52,442,825	569,273,000	31,320,784	715,122,494	7,774,848
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	137,800,614	186,301,527	130,141,000	41,901,459	496,144,600	8,784,831
Restricted for:						
Debt Service, Net of Related Debt	531,526	85,306	12,260,000	2,132,075	15,008,907	-
Capital Projects	-	-	-	1,241,845	1,241,845	-
Other	-	-	-	12,200	12,200	-
Unrestricted	23,650,451	20,161,662	66,414,000	4,416,934	114,643,047	10,956,246
Total Net Assets	\$ 161,982,591	206,548,495	208,815,000	49,704,513	627,050,599	19,741,077

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2004

	Business-Type Activities – Enterprise Funds				Governmental Activities – Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total
Operating Revenues					
Charges for Services	\$ 16,011,984	22,168,258	168,868,000	3,578,560	210,626,802
Fees	-	-	-	6,945,370	6,945,370
Parking Facility Revenue Pledged as Security for Revenue Bonds	-	-	-	2,731,106	2,731,106
Parking Facility Revenue - Unpledged	-	-	-	2,679,754	2,679,754
Performance Revenue	-	-	-	1,524,142	1,524,142
Other Operating Revenue	-	-	-	448,300	448,300
Total Operating Revenues	16,011,984	22,168,258	168,868,000	17,907,232	224,955,474
Operating Expenses					
Personal Services	-	-	-	6,472,949	6,472,949
Contractual Services	-	-	-	4,724,504	4,724,504
Operation and Maintenance	8,589,050	10,527,801	11,213,000	4,991,853	35,321,704
Purchased Power	-	-	83,259,000	-	83,259,000
Depreciation	4,431,327	5,789,689	22,409,000	3,267,361	35,897,377
Payments in Lieu of Taxes	-	-	6,320,000	-	6,320,000
Administrative Costs	1,453,869	1,949,685	21,679,000	-	25,082,554
Total Operating Expenses	14,474,246	18,267,175	144,880,000	19,456,667	197,078,088
Operating Income (Loss)	1,537,738	3,901,083	23,988,000	(1,549,435)	27,877,386
Nonoperating Revenues (Expenses)					
Investment Earnings	1,742,914	772,604	1,542,000	330,111	4,387,629
Gain on Disposal of Capital Assets	-	-	-	139,854	139,854
Occupation Tax	-	-	-	2,234,490	2,234,490
Grants	1,316,900	-	-	-	1,316,900
Amortization of Deferred Charges	(23,602)	(51,410)	(2,962,000)	(49,114)	(3,086,126)
Interest Expense and Fiscal Charges	(963,572)	(1,851,396)	(15,236,000)	(1,105,347)	(19,156,315)
Total Nonoperating Revenues (Expenses)	2,072,640	(1,130,202)	(16,656,000)	1,549,994	415,690
Income (Loss) Before Contributions and Transfers	3,610,378	2,770,881	7,332,000	559	13,713,818
Capital Contributions	4,501,573	4,117,988	-	87,576	8,707,137
Transfers In	-	-	-	593,368	593,368
Transfers Out	-	-	(1,129,000)	(620,587)	(1,749,587)
Change in Net Assets	8,111,951	6,888,869	6,203,000	60,916	21,264,736
Net Assets - Beginning	153,870,640	199,659,626	202,612,000	49,643,597	605,785,863
Net Assets - Ending	\$ 161,982,591	206,548,495	208,815,000	49,704,513	627,050,599

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2004

	Business-Type Activities -- Enterprise Funds				Governmental Activities -- Internal Service Funds
	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Other Enterprise Funds	Total
Cash Flows from Operating Activities					
Receipts from Customers and Users	\$ 14,623,967	21,328,554	178,617,000	16,979,845	231,549,366
Receipts from Interfund Services Provided	161,974	557,555	7,402,000	435,671	8,557,200
Payments to Suppliers for Goods and Services	(4,565,807)	(7,478,225)	(122,439,000)	(6,911,002)	(141,394,034)
Payments to Employees	(5,826,845)	(6,463,008)	(17,442,000)	(6,410,962)	(36,152,615)
Payments for Interfund Services Provided	(1,321,938)	(2,173,307)	(1,294,000)	(1,730,022)	(6,519,267)
Payments in Lieu of Taxes	-	-	(6,126,000)	-	(6,126,000)
Other Receipts	-	-	-	448,300	448,300
Net Cash Provided by Operating Activities	3,061,551	5,771,569	38,718,000	2,811,830	50,362,950
Cash Flows from Noncapital Financing Activities					
Occupation Tax	-	-	-	1,912,975	1,912,975
Transfers from Other Funds	-	-	-	450,000	450,000
Transfers to Other Funds	-	-	(1,129,000)	(620,587)	(1,749,587)
Advances from General Fund	-	-	-	573,863	573,863
Repayment of Advances from General Fund	-	-	-	(293,184)	(293,184)
Interest Paid to General Fund	-	-	-	(24,082)	(24,082)
Federal Grant Revenue	1,316,900	-	-	-	1,316,900
Net Cash Provided (Used) by Noncapital Financing Activities	1,316,900	-	(1,129,000)	1,998,985	2,186,885
Cash Flows from Capital and Related Financing Activities					
Additions to Capital Assets	(19,956,558)	(9,479,576)	(87,925,000)	(3,757,860)	(121,118,994)
Proceeds from Sale of Capital Assets	-	-	-	226,968	226,968
Proceeds from Long-Term Debt	-	-	127,690,000	612,341	128,302,341
Net Cost of Retiring Plant	-	-	(249,000)	-	(249,000)
Principal Payments of Capital Lease	-	-	-	(242,527)	(242,527)
Principal Payments of Bonded Debt	(1,750,000)	(3,115,000)	(46,970,000)	(1,600,000)	(53,435,000)
Interest and Fiscal Charges Paid	(987,174)	(1,902,806)	(18,857,000)	(1,079,745)	(22,826,725)
Net Cash Used by Capital and Related Financing Activities	(22,693,732)	(14,497,382)	(26,311,000)	(5,840,823)	(69,342,937)
Cash Flows from Investing Activities					
Proceeds from Sale and Maturities of Investments	63,245,476	21,119,245	518,193,000	12,417,904	614,975,625
Purchases of Investments	(45,983,519)	(14,412,995)	(531,388,000)	(11,496,132)	(603,280,646)
Interest and Other Receipts	1,613,993	620,482	1,765,000	329,451	4,328,926
Net Cash Provided (Used) by Investing Activities	18,875,950	7,326,732	(11,430,000)	1,251,223	16,023,905
Net Increase (Decrease) in Cash and Cash Equivalents	560,669	(1,399,081)	(152,000)	221,215	(769,197)
Cash and Cash Equivalents - Beginning	9,992,780	4,719,391	745,000	3,075,511	18,532,682
Cash and Cash Equivalents - Ending	\$ 10,553,449	3,320,310	593,000	3,296,726	17,763,485
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating Income (Loss)	\$ 1,537,738	3,901,083	23,988,000	(1,549,435)	27,877,386
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	4,431,327	5,718,136	24,032,000	3,267,361	37,448,824
Changes in Assets and Liabilities:					
Accounts Receivable and Unbilled Revenues	(1,226,043)	(282,149)	508,000	(47,266)	(1,047,458)
Due from Other Funds	-	-	-	(24,089)	(24,089)
Due from Other Governments	-	-	-	(2,270)	(2,270)
Inventories	(24,655)	68,514	(1,119,000)	(27,300)	(1,102,441)
Plant Operation Assets	-	-	(311,000)	-	(311,000)
Prepaid Expenses	-	-	(197,000)	(30,742)	(227,742)
Other Assets	-	-	(1,322,000)	-	(1,322,000)
Accounts Payable	367,997	(3,689,410)	(7,586,000)	69,931	(10,837,482)
Accrued Liabilities	(2,064,631)	11,156	-	48,681	(2,004,794)
Accrued Compensated Absences	39,818	44,239	-	13,306	97,363
Due to Other Funds	-	-	-	(5,140)	(5,140)
Due to Other Governments	-	-	-	74,181	74,181
Unearned Revenue	-	-	-	30,612	30,612
Claims	-	-	-	-	-
In Lieu of Taxes	-	-	194,000	-	194,000
Other Current Liabilities	-	-	530,000	-	530,000
Deferred Credits and Other Liabilities	-	-	1,000	-	1,000
Accrued Landfill Closure/Postclosure Care Costs	-	-	-	994,000	994,000
Total Adjustments	1,523,813	1,870,486	14,730,000	4,361,265	22,485,564
Net Cash Provided by Operating Activities	\$ 3,061,551	5,771,569	38,718,000	2,811,830	50,362,950
Supplemental Disclosure of Noncash Investing, Capital, and Financing Activities:					
Contribution of Capital Assets	\$ 4,163,852	2,500,932	-	87,576	6,752,360
Purchase of Capital Assets on Account	4,059,638	1,622,829	-	329,075	6,011,542
Change in Fair Value of Investments	(32,581)	141,872	-	(1,578)	107,713

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2004

	Police And Fire Pension Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 665,331	3,731,970
Investments	147,057,670	1,786,952
Receivables:		
Contributions	300,112	-
Accrued Interest	466,073	3,060
Other	-	36,645
Due from Other Governments	186	-
Contractor Retainage	-	1,004,899
Total Assets	<u>148,489,372</u>	<u>6,563,526</u>
LIABILITIES		
Warrants Payable	-	2,067,380
Accounts Payable	516	481,138
Accrued Liabilities	4,306	-
Accrued Compensated Absences	8,072	-
Due to Other Governments	-	1,111,013
Due to Contractors	-	1,684,637
Due to Joint Venture	-	1,206,985
Due to Bondholders	-	12,373
Total Liabilities	<u>12,894</u>	<u>6,563,526</u>
NET ASSETS		
Held in Trust for Pension Benefits	<u>\$ 148,476,478</u>	<u>-</u>

The notes to the financial statements are an integral part of this statement.

CITY OF LINCOLN, NEBRASKA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED AUGUST 31, 2004

	<u>Police And Fire Pension Trust Fund</u>
Additions:	
Contributions:	
Employer	\$ 2,081,941
Employee	<u>1,819,655</u>
Total Contributions	<u>3,901,596</u>
Investment Earnings:	
Interest	1,398,496
Dividends	2,000,390
Net Increase in Fair Value of Investments	<u>10,563,779</u>
Net Investment Earnings	<u>13,962,665</u>
Total Additions	<u>17,864,261</u>
Deductions:	
Benefit Payments	7,214,834
Refunds of Contributions	258,465
Administrative Costs	<u>246,220</u>
Total Deductions	<u>7,719,519</u>
Change in Net Assets	10,144,742
Net Assets Held in Trust for Pension Benefits - Beginning	<u>138,331,736</u>
Net Assets Held in Trust for Pension Benefits - Ending	<u>\$ 148,476,478</u>

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

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CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The accompanying financial statements present the government of the City of Lincoln, Nebraska (City). Based upon the criteria identified in Governmental Accounting Standards Board (GASB) Statement 14, *The Financial Reporting Entity*, and Statement 39, *Determining Whether Certain Organizations are Component Units*, none of the City's significant potential component units are required to be included as part of the reporting entity. Regarding related organizations, the City's Mayor appoints and the City Council approves all of the board appointments of the Housing Authority of the City of Lincoln. However, the City has no further accountability for this organization.

FISCAL YEAR-END

All fund types of the City, with the exception of Lincoln Electric System (LES), are reported as of and for the year ended August 31, 2004. December 31st is the fiscal year-end of LES as established by the City Charter, and the last separate financial statements were as of and for the year ended December 31, 2003. The amounts included in the City's 2004 financial statements for LES are figures as of and for the year ended December 31, 2003.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Fiduciary activities, whose resources are not available to finance the City's programs, are excluded from the government-wide statements. The material effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *total economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, including interest on long-term debt, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes, sales taxes, highway user fees, interdepartmental charges, intergovernmental revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Special assessments are recorded as revenues in the year the assessments become current. Annual installments not yet due are reflected as special assessment receivables and deferred revenues. Other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund finances the day-to-day operation of the basic governmental activities, such as legislative, judicial, administration, police and fire protection, legal services, planning, and parks and recreation.

The Street Construction Fund accounts for the resources accumulated and payments made for the maintenance, construction, and improvement of the streets and highways in the City.

The Federal Grants Fund accounts for the costs of providing services under the City's Community Development Block Grant Program with funding provided by grants from the Department of Housing and Urban Development; monies received from various federal and state agencies under several small categorical grants and the City's matching funds to provide services as stipulated in the individual grant agreements; costs of providing services under the Workforce Investment Act with funding provided by grants from the Department of Labor; and reimbursements from the Federal Emergency Management Agency due to disasters caused by storm and flood damage with funds used to reimburse other funds for related costs and to pay disaster related expenses.

The Community Health Permanent Endowment Fund accounts for the cash proceeds realized by the City from the sale of Lincoln General Hospital together with any interest or other investment income earned. The endowment may be increased by donations, bequests, or appropriations to the fund. Monies in the fund are used for funding health and health-related programs that further the health, safety, or welfare of the citizens of Lincoln.

The government reports the following major enterprise funds:

The Lincoln Wastewater System Fund accounts for the activities of the government's wastewater utility.

The Lincoln Water System Fund accounts for the activities of the government's water distribution operations.

The Lincoln Electric System Fund accounts for the activities of the government's electric distribution operations.

Additionally, the government reports the following fund types:

Internal Service Funds account for data processing, engineering, risk management, fleet management, telecommunications, and copy services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

The Pension Trust Fund accounts for the receipt, investment, and distribution of retirement contributions made for the benefit of police officers and firefighters.

The Agency Funds account for the collection of various taxes, fines, fees, and loan programs due to other government entities; good faith money due to contractors upon project completion; funds held to pay outstanding warrants; funds to pay phone system charges; defeased bond proceeds to pay called bonds for which the City Treasurer is trustee; funds for the joint administrative entity known as JAVA, created to coordinate planning and implementation of the Antelope Valley Project; funds deposited by Gateway Shopping Center in fulfillment of a condition of the use permit for expansion; and reserve funds held for the Public Building Commission 2004 Bonds.

Private-sector standards of accounting and financial reporting issued prior to November 30, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict pronouncements of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. Only the City's Lincoln Wastewater System and Lincoln Water System funds have elected to follow subsequent private-sector guidance.

The effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and charges between the business-type functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, fines and forfeitures, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service funds are charges to customers for goods and services. Operating expenses include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. These investments are not specifically identified with any one fund. Interest is allocated to the individual funds on the basis of average cash balances.

The City may invest in certificates of deposit, in time deposits, and in any securities in which the state investment officer is authorized to invest pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council in effect on the date the investment is made.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Investments in the Pension Trust Fund are carried at fair value. Investments in other funds are carried at fair value, except for short-term investments which are reported at amortized cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value, based on relevant market information of similar financial instruments. Income from investments held by the individual funds is recorded in the respective funds as it is earned.

In accordance with authorized investment laws, the Pension Trust Fund of the City is allowed to invest in various mortgage-backed securities, such as collateralized mortgage obligations. They are reported in aggregate as mortgage-backed securities in the disclosure of custodial credit risk (see Note 4).

Receivables and Payables

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent current assets. Recognition of governmental fund type revenues represented by noncurrent receivables generally is deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Amounts of governmental fund inventories and prepaid items are offset by a fund balance reserve account to indicate that they do not represent "available spendable resources".

Restricted Assets

Certain proceeds of the enterprise funds revenue bonds and resources set aside for their repayment are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Assets included in the Bond Principal and Interest Account and the Bond Reserve Account are restricted for the payment of bond principal and interest. Assets included in the Surplus Account and the Depreciation and Replacement Account are restricted for purposes including improvements, repairs and replacements, acquisition of equipment, and the payment of bond principal and interest. Assets included in the Construction Account are restricted for paying the cost of the capital projects.

Certain assets of the Golf Enterprise Fund are classified as restricted assets to be used for capital improvements.

Certain assets of the Pershing Municipal Auditorium Enterprise Fund are classified as restricted assets to be used for improvements and to supplement event net losses.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

A recap of restrictions and related balances at August 31, 2004 are as follows:

Fund Account	Golf	Parking Facilities	Pershing Municipal Auditorium	Lincoln Wastewater System	Lincoln Water System	Lincoln Electric System	Totals
Principal and Interest	\$ -	236,021	-	-	-	11,051,000	11,287,021
Reserve	316,500	2,073,886	-	3,876,201	3,264,607	14,303,000	23,834,194
Surplus	-	-	-	1,388,242	-	-	1,388,242
Depreciation and Replacement	100,000	246,176	-	-	-	-	346,176
Construction	-	8,972	-	43,082,919	13,552,267	56,283,000	112,927,158
Capital Improvements	10,463	-	180,554	-	-	6,000	197,017
Marketing	-	-	12,200	-	-	-	12,200
Communications Escrow	-	-	-	-	-	118,000	118,000
Payments in Lieu of Taxes	-	-	-	-	-	73,000	73,000
	<u>\$ 426,963</u>	<u>2,565,055</u>	<u>192,754</u>	<u>48,347,362</u>	<u>16,816,874</u>	<u>81,834,000</u>	<u>150,183,008</u>

Resources of the permanent funds totaling \$37,160,000 are legally restricted to the extent that only earnings and not principal may be used to support the City's programs.

Investment in Joint Venture

Investment in joint venture consists of the City's capital interest in the Joint Antelope Valley Authority (see Note 19), a joint administrative entity carried on the equity method of accounting.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalization value of the assets constructed.

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10 - 50
Improvements	5 - 40
Infrastructure	20 - 100
Equipment	2 - 20
Utility Plant	30 - 40

The one exception to this rule is library media, which is depreciated using a composite depreciation method.

Compensated Absences

City employees generally earn vacation days at a variable rate based on years of service. In the event of termination, an employee is reimbursed for accumulated vacation time up to a maximum allowed accumulation which is in no case longer than 34 days.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Employees earn sick leave at the rate of one day per month with total accumulation limits established by the employees' bargaining unit. Upon retirement, an employee is reimbursed for one-fourth or one-half of accumulated sick leave, with maximums depending on the employees' bargaining unit contract. In some cases payment may be placed directly in a medical spending account rather than reimbursing the employee directly. Police union employees who leave the City's service in good standing after giving two weeks notice of termination of employment are compensated for one-fourth of accumulated sick leave to the date of separation. LES is covered by a separate personnel plan regarding vacation and sick leave with the liability for these benefits recorded in accrued liabilities.

Vacation leave and other compensated absences with similar characteristics are accrued as the benefits are earned if the leave is attributable to past service and it is probable that the City will compensate the employees for such benefits. Sick leave and other compensated absences with similar characteristics are accrued as the benefits are earned only to the extent it is probable that the City will compensate the employees for such benefits through cash payments conditioned on the employee's termination or retirement. Such accruals are based on current salary rates and include salary-related payments directly and incrementally associated with payments made for compensated absences on termination.

All vacation and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. In the governmental funds, only compensated absences expected to be liquidated with expendable available financial resources are recorded as a fund liability.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt using the bonds-outstanding method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as an other financing source. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as current expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of unrestricted fund balance represent tentative management plans that are subject to change.

The City has established a policy providing for an unreserved fund balance in the City's General Fund. To meet excess cash flow needs, no less than twenty percent of the ensuing year's General Fund budget is to be set aside as an unrestricted reserve. Currently \$21,414,839 of the General Fund's unreserved fund balance of \$32,552,543 meets the requirements of this policy, leaving an additional unreserved balance of \$11,137,704.

Net Assets Classification

Net assets are required to be classified into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation, and unamortized bond issuance costs reduced by the outstanding

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt.

Restricted – This component of net assets consists of restrictions placed on net assets use through external constraints imposed by creditors (such as debt covenants), contributors, or law or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

BUDGETARY DATA

The City Council follows these procedures, set out in the City Charter, in establishing the budgetary data reflected in the financial statements:

- 1) At least 40 days prior to the end of the budget and fiscal year, the Mayor submits to the City Council a proposed annual budget for the ensuing year. The annual budget is a complete financial plan for the ensuing budget year and consists of an operating budget and a capital budget.
- 2) Public hearing on the proposed budget is scheduled for not later than 10 days prior to the budget adoption date.
- 3) Not later than 5 days prior to the end of the fiscal year, the budget is legally adopted by resolution of the City Council.
- 4) The Mayor is authorized to transfer unencumbered balances between appropriations of the same department or agency. The Mayor also has authority to lower appropriations in any fund where actual revenues are less than appropriated in order to avoid incurring a budget deficit for the year.

Appropriation transfers between departments or agencies may only be authorized by resolution of the City Council. The Council may not make any appropriations in addition to those authorized in the annual budget, except that it may authorize emergency appropriations in the event of an emergency threatening serious loss of life, health, or property in the community.

- 5) Budgets for all funds are adopted on a basis inconsistent with generally accepted accounting principles (GAAP). Since encumbrances are included in the City's budget accounting, year-end encumbrances are reappropriated to the next year in the budget process. Various funds have expenditures automatically appropriated through the budget resolution, based on funds available. These expenditures are reflected in the original and final budgets at amounts equal to the actual expenditures. Budget basis expenditures are presented on a cash basis.

Amendments to the adopted budget were made this year and resulted from prior fiscal year encumbrances identified subsequent to budget adoption, appropriation of unanticipated revenues to certain funds as provided in the budget resolution, and appropriation revisions between or among departments as provided for under the City Charter.

- 6) Appropriation controls are required at the departmental level. However, as a matter of policy and practice, appropriations generally are controlled at the next level of organization (division) or by fund within a department.
- 7) Operating appropriations lapse at the end of the fiscal year except for capital improvement appropriations and year-end encumbrances against operating budgets. Capital improvement appropriations are continuing appropriations through completion of the project.
- 8) Budgets are adopted by resolution for the following fund types: general, special revenue, debt service, capital projects, permanent, enterprise, internal service, and pension trust. Legally adopted annual budgets are not established for certain special revenue (Advance Acquisition, Tax Sales Revolving, Special Assessment, Property Tax Refunds, Parks and Recreation Special Projects, and

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Commission on Aging Gift Trust), debt service (Special Assessment), and agency funds. In addition, capital project funds are budgeted on a project rather than an annual basis.

PRIOR-YEAR SUMMARIZED FINANCIAL INFORMATION

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements as of and for the year ended August 31, 2003, from which the summarized information was derived.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ materially from those estimates.

(2) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets of governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds." The details of the \$128,501,298 difference are as follows:

Bonds Payable	\$ 109,170,013
Less deferred charge for issuance costs	(727,458)
Less issuance discounts	(8,921)
Plus issuance premiums	2,282,260
Capital Leases Payable	7,785,515
Accrued Interest Payable	1,405,448
Net Pension Obligation	1,430,383
Compensated Absences	7,164,058
Net difference	\$ <u>128,501,298</u>

EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *change in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$22,828,271 difference are as follows:

Capital outlay	\$ 38,883,003
Depreciation expense	(16,054,732)
Net difference	\$ <u>22,828,271</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Another element of that reconciliation states that "The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$(40,143,143) difference are as follows:

Debt issued or incurred:

Issuance of general obligation highway allocation bonds	\$ (35,000,000)
Issuance of tax allocation bonds	(6,535,000)
Issuance of certificates of participation	(2,265,000)
Deferred charge for issuance costs	308,964
Issuance discounts	5,855
Issuance premiums	(1,918,788)
Amortization of deferred items	1,597
Principal repayments	<u>5,259,229</u>
Net difference	<u>\$ (40,143,143)</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$(1,476,716) difference are as follows:

Loss on disposal of capital assets	\$ (102,392)
Accrued interest	(791,622)
Compensated absences	<u>(582,702)</u>
Net difference	<u>\$ (1,476,716)</u>

(3) **RECONCILIATION OF BUDGET BASIS TO GAAP**

Amounts presented on a non-GAAP budget basis of accounting differ from those presented in accordance with GAAP due to the treatment afforded accruals, encumbrances, and funds for which legally adopted annual budgets are not established. A reconciliation for the year ended August 31, 2004, which discloses the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis, is presented below:

	General <u>Fund</u>	Street Construction <u>Fund</u>	Federal Grants <u>Fund</u>
Net Change in Fund Balances:			
Balance on a GAAP basis	\$(1,143,371)	23,935,322	722,612
Basis differences (accruals) occur because the cash basis of accounting used for budgeting differs from the modified accrual basis of accounting prescribed for governmental funds.	(903,062)	1,568,713	(625,043)
Entity differences occur when the budget excludes programs or entities that fall within the financial reporting entity as defined by GAAP.	<u>-</u>	<u>29,747,782</u>	<u>-</u>
Balance on a budget basis	<u>\$ (2,046,433)</u>	<u>55,251,817</u>	<u>97,569</u>

CITY OF LINCOLN, NEBRASKA
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(4) **DEPOSITS AND INVESTMENTS**

DEPOSITS

State Statutes 15-846 and 15-847 R.R.S., 1943 require banks either to give bond or to pledge government securities (types of which are specifically identified in the Statutes) to the City Treasurer in the amount of the City's deposits. The Statutes allow pledged securities to be reduced by the amount of the deposit which is insured by the Federal Deposit Insurance Corporation (FDIC).

For purposes of classifying categories of custodial risk, the bank balances of the City's deposits as of August 31, 2004, are either entirely insured or collateralized with securities held by the City's agent in other than the City's name.

As of August 31, 2004, the book balances of the City's deposits approximate bank balances.

INVESTMENTS

For reporting purposes, the carrying amount of securities is classified into the following three categories of custodial credit risk:

- 1) Insured or registered, or securities held by the City or its agent in the City's name.
- 2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- 3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Pension Fund

At August 31, 2004, the Pension Trust fund had investments as follows:

	Category 3	Reported Amount
Mortgage-backed Securities	\$ 10,422,605	10,422,605
Government Agencies	2,429,894	2,429,894
Corporate Bonds	<u>3,922,380</u>	<u>3,922,380</u>
	<u>\$ 16,774,879</u>	16,774,879
Mutual Funds		92,619,667
Mutual Funds - Fixed Income		7,216,215
Mutual Funds - Foreign Obligation		
Bonds		7,443,403
Real Estate Limited Partnerships		18,549,897
Mutual Funds - Hedge Funds		4,417,738
Pooled Investment Funds		
(internal and external)		<u>272,916</u>
		<u>\$147,294,715</u>

Lincoln Electric System (LES)

At December 31, 2003 LES had investments as follows:

	Category 1	Reported Amount
Government Securities	<u>\$80,130,000</u>	80,130,000
Government Money Markets		<u>52,071,000</u>
		<u>\$ 132,201,000</u>

CITY OF LINCOLN, NEBRASKA
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Lincoln Wastewater System

At August 31, 2004, Lincoln Wastewater System had investments as shown below:

	Category <u>3</u>	Reported <u>Amount</u>
Government Agencies	\$ 46,031,799	46,031,799
Government Securities	<u>1,388,242</u>	<u>1,388,242</u>
	\$ <u>47,420,041</u>	47,420,041
Pooled Investment Funds (internal and external)		4,734,582
		<u>\$ 52,154,623</u>

Lincoln Water System

At August 31, 2004, Lincoln Water System had investments as follows:

	Category <u>3</u>	Reported <u>Amount</u>
Government Agencies	\$ 13,238,062	13,238,062
Government Securities	<u>3,264,607</u>	<u>3,264,607</u>
	\$ <u>16,502,669</u>	16,502,669
Pooled Investment Funds (internal and external)		<u>1,486,795</u>
		<u>\$ 17,989,464</u>

Community Health Permanent Endowment

At August 31, 2004, Community Health Permanent Endowment had investments as follows:

	Category <u>3</u>	Reported <u>Amount</u>
Government Agencies	\$ 8,080,064	8,080,064
Government Securities	4,723,182	4,723,182
Corporate Bonds	11,577,697	11,577,697
Foreign Obligations	683,675	683,675
Equity Securities	<u>192,369</u>	<u>192,369</u>
	\$ <u>25,256,987</u>	25,256,987
Securities Lending Short-term Investment Pool		7,158,131
Pooled Investment Funds (internal and external)		<u>17,877,094</u>
		<u>\$ 50,292,212</u>

All Other City Funds

Investments of all other City funds do not vary significantly in either type or risk.
These investments at August 31, 2004, were as follows:

	Category <u>2</u>	Category <u>3</u>	Reported <u>Amount</u>
Government Agencies	\$ 1,792,451	128,314,754	130,107,205
Government Securities	92,153	-	92,153
Corporate Bonds	<u>94,389</u>	-	<u>94,389</u>
	\$ <u>1,978,993</u>	<u>128,314,754</u>	130,293,747
Equity Securities			328,089
Pooled Investment Funds (internal and external)			14,967,214
Interfund Investments			<u>195,695</u>
			<u>\$ 145,784,745</u>

CITY OF LINCOLN, NEBRASKA
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Summary of Deposit and Investment Balances

Following is a reconciliation of the City's deposit and investment balances as of August 31, 2004:

	<u>Totals</u>		
Investments	\$ 545,716,759		
Certificates of Deposit	13,000,000		
Money Market Accounts	17,629,360		
Bank Accounts and Cash on Hand	5,677,206		
	<u>\$ 582,023,325</u>		
		<u>Government-wide</u>	<u>Fiduciary Funds</u>
		<u>Statement of</u>	<u>Statement of</u>
		<u>Net Assets</u>	<u>Net Assets</u>
			<u>Totals</u>
Cash and Cash Equivalents	\$ 49,591,694	4,397,301	53,988,995
Investments	185,145,206	148,844,622	333,989,828
Invested Securities Lending	7,158,131	-	7,158,131
Restricted Assets:			
Cash and Cash Equivalents	829,896	-	829,896
Investments	186,056,475	-	186,056,475
	<u>\$ 428,781,402</u>	<u>153,241,923</u>	<u>582,023,325</u>

There were no investments that resulted in significantly greater custodial credit risk held during the fiscal year ended August 31, 2004, than those held at year end.

The City's Pension Trust Fund invests in collateralized mortgage obligations to maximize investment earnings. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The policies of the Community Health Endowment (CHE) Board of Trustees authorize the CHE fund to participate in securities lending transactions, where securities are loaned to brokers and broker dealers with a simultaneous agreement to return the collateral for the same securities in the future. The custodial bank administers the securities lending program and receives cash at least equal in value to the fair value of the loaned securities as collateral for securities of the type on loan at year-end. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial risk. At year-end, CHE has no credit risk exposure to borrowers because the amounts CHE owes the borrowers exceed the amounts the borrowers owe CHE. The cash cannot be spent by CHE unless the borrower defaults. There are no restrictions on the amount of securities that can be loaned, and there were no losses resulting from borrower default during the year.

Either CHE or the borrowers can terminate all securities loans on demand. Cash collateral is invested in one of the lending agent's short-term investment pools that had an average duration of 81 days. Because loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. Loss indemnification is provided to the Fund by the contract with the custodian.

CITY OF LINCOLN, NEBRASKA
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(5) RECEIVABLES

Receivables at August 31, 2004, consist of the following (in thousands):

Fund	Taxes	Accounts	Contributions	Special Assessment		Accrued Interest	Gross Receivables	Allowance For Uncollectibles	Net
				Current	Deferred				
General	\$ 3,635	1,114	-	-	-	121	4,870	-	4,870
Street Construction	-	133	-	-	-	218	351	-	351
Federal Grants	-	9	-	-	-	3	12	-	12
Community Health	-	-	-	-	-	-	-	-	-
Endowment	-	-	-	-	-	197	197	-	197
Wastewater System	-	3,573	-	-	-	305	3,878	-	3,878
Water System	-	5,299	-	-	-	119	5,418	-	5,418
Electric System	-	15,352	-	-	-	669	16,021	-	16,021
Nonmajor -	-	-	-	-	-	-	-	-	-
Special Revenue	1,590	458	-	-	-	108	2,156	-	2,156
Debt Service	906	-	-	419	2,338	99	3,762	206	3,556
Capital Projects	-	-	-	-	-	152	152	-	152
Enterprise	-	3,504	-	-	-	94	3,598	983	2,615
Internal Service	-	325	-	-	-	82	407	-	407
Fiduciary	-	37	300	-	-	469	806	-	806
	<u>\$ 6,131</u>	<u>29,804</u>	<u>300</u>	<u>419</u>	<u>2,338</u>	<u>2,636</u>	<u>41,628</u>	<u>1,189</u>	<u>40,439</u>

Enterprise funds customer accounts receivable include unbilled charges for services.

Delinquent special assessment receivables at August 31, 2004, were \$211,840.

No other receivables are expected to be uncollected within one year.

(6) DUE FROM OTHER GOVERNMENTS

The total of Due From Other Governments of \$29,253,925 includes the following significant items:

Fund/Fund Type	Amount	Service
General/General	\$ 9,087,351	State of Nebraska, July/August Sales and Use Tax
	386,033	August Motor Vehicle Taxes Collected by Lancaster County
	134,233	Federal Government, Cost Reimbursements
	88,547	Lancaster County, Cost Reimbursements
Street Construction/Special Revenue	2,639,822	State of Nebraska, July/August Highway User Fees
	12,146,813	Federal Government, Cost Reimbursements
Federal Grants/Special Revenue	2,155,983	Federal Government, Cost Reimbursements
Lincoln Area Agency on Aging/Special Revenue	182,599	Federal Government, Cost Reimbursements
Lincoln/Lancaster Co. Health/Special Revenue	376,493	Lancaster County, Cost Reimbursements
Snow Removal/Special Revenue	94,739	August Motor Vehicle Taxes Collected by Lancaster County
MIRF/ Tax Supported Bonds/Debt Service	260,000	State of Nebraska, Redevelopment Fund Disbursements
Antelope Valley/Tax Supported Bonds/Debt Service	166,167	State of Nebraska, July/August Development Fund Disbursements
Storm Sewer Construction/Capital Projects	185,400	Lower Platte South Natural Resource District, Project Cost Reimbursements
Vehicle Tax/Capital Projects	739,230	August Motor Vehicle Taxes Collected by Lancaster County
Information Services/Internal Service	432,462	Lancaster County Billings
Subtotal	29,075,872	
All other	178,053	
Total Due From Other Governments	<u>\$ 29,253,925</u>	

CITY OF LINCOLN, NEBRASKA
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(7) CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2004, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 40,506,899	4,250,899	-	44,757,798
Construction in Progress	69,777,976	24,642,473	9,284,522	85,135,927
Total Capital Assets, not being Depreciated	110,284,875	28,893,372	9,284,522	129,893,725
Capital Assets, being Depreciated:				
Buildings	61,694,276	5,333,727	152,735	66,875,268
Improvements Other Than Buildings	47,350,852	1,527,709	191,993	48,686,568
Machinery and Equipment	63,038,374	7,799,991	5,322,883	65,515,482
Infrastructure	282,849,786	19,541,062	-	302,390,848
Total Capital Assets, being Depreciated	454,933,288	34,202,489	5,667,611	483,468,166
Less Accumulated Depreciation for:				
Buildings	20,609,626	1,629,285	76,942	22,161,969
Improvements Other Than Buildings	16,065,301	1,438,647	167,678	17,336,270
Machinery and Equipment	34,058,259	5,572,365	5,052,934	34,577,690
Infrastructure	91,063,222	9,542,540	-	100,605,762
Total Accumulated Depreciation	161,796,408	18,182,837	5,297,554	174,681,691
Total Capital Assets, being Depreciated, Net	293,136,880	16,019,652	370,057	308,786,475
Governmental Activities Capital Assets, Net	\$ 403,421,755	44,913,024	9,654,579	438,680,200
Business-type Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 14,371,950	309,111	28,078	14,652,983
Construction in Progress	164,339,164	131,492,288	156,741,580	139,089,872
Total Capital Assets, not being Depreciated	178,711,114	131,801,399	156,769,658	153,742,855
Capital Assets, being Depreciated:				
Buildings	179,618,337	14,635,628	1,280,560	192,973,405
Improvements Other Than Buildings	319,123,250	32,098,543	-	351,221,793
Machinery and Equipment	25,078,757	2,282,438	1,408,661	25,952,534
Utility Plant	654,127,000	116,932,000	2,088,000	768,971,000
Total Capital Assets, being Depreciated	1,177,947,344	165,948,609	4,777,221	1,339,118,732
Less Accumulated Depreciation for:				
Buildings	53,288,147	4,090,295	528,156	56,850,286
Improvements Other Than Buildings	87,302,433	7,569,745	-	94,872,178
Machinery and Equipment	14,615,990	1,828,337	1,217,997	15,226,330
Utility Plant	248,352,000	22,409,000	3,258,000	267,503,000
Total Accumulated Depreciation	403,558,570	35,897,377	5,004,153	434,451,794
Total Capital Assets, being Depreciated, Net	774,388,774	130,051,232	(226,932)	904,666,938
Business-type Activities Capital Assets, Net	\$ 953,099,888	261,852,631	156,542,726	1,058,409,793

CITY OF LINCOLN, NEBRASKA
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Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
General Government	\$ 777,074
Public Safety	1,423,013
Streets and Highways, including Infrastructure	9,209,444
Culture and Recreation	3,321,871
Economic Opportunity	61,444
Health and Welfare	144,227
Mass Transit	1,117,659
Internal Service Funds Capital Assets	
Depreciation is charged to the various functions based on usage of the assets.	2,128,105
Total Depreciation Expense - Governmental	\$ 18,182,837
Business-type Activities:	
Parking Lots	\$ 24,905
Golf	593,452
Parking Facilities	1,022,072
Pershing Municipal Auditorium	171,943
Sanitary Landfill	1,291,297
Emergency Medical Services	163,692
Wastewater System	4,431,327
Water System	5,789,689
Lincoln Electric System	22,409,000
Total Depreciation Expense - Business-type	\$ 35,897,377

Capital asset activity of each major enterprise fund was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Wastewater System:				
Capital Assets, not being Depreciated:				
Land	\$ 2,280,164			2,280,164
Construction in Progress	24,590,688	24,723,917	17,003,276	32,311,329
Total Capital Assets, not being Depreciated	26,870,852	24,723,917	17,003,276	34,591,493
Capital Assets, being Depreciated:				
Buildings	37,600,319	11,988,365	-	49,588,684
Improvements Other Than Buildings	120,424,069	9,022,951	-	129,447,020
Machinery and Equipment	8,638,706	684,817	58,365	9,265,158
Total Capital Assets, being Depreciated	166,663,094	21,696,133	58,365	188,300,862
Less Accumulated Depreciation for:				
Buildings	16,820,989	1,149,608	-	17,970,597
Improvements Other Than Buildings	36,273,310	2,829,977	-	39,103,287
Machinery and Equipment	4,856,475	451,742	44,228	5,263,989
Total Accumulated Depreciation	57,950,774	4,431,327	44,228	62,337,873
Total Capital Assets, being Depreciated, Net	108,712,320	17,264,806	14,137	125,962,989
Wastewater System Capital Assets, Net	\$ 135,583,172	41,988,723	17,017,413	160,554,482

CITY OF LINCOLN, NEBRASKA
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	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Water System:				
Capital Assets, not being Depreciated:				
Land	\$ 4,431,662	309,111	28,078	4,712,695
Construction in Progress	10,701,532	12,014,542	20,721,950	1,994,124
Total Capital Assets, not being Depreciated	<u>15,133,194</u>	<u>12,323,653</u>	<u>20,750,028</u>	<u>6,706,819</u>
Capital Assets, being Depreciated:				
Buildings	92,937,642	2,602,880	1,164,256	94,376,266
Improvements Other Than Buildings	176,454,070	21,498,865	-	197,952,935
Machinery and Equipment	6,911,765	303,849	93,350	7,122,264
Total Capital Assets, being Depreciated	<u>276,303,477</u>	<u>24,405,594</u>	<u>1,257,606</u>	<u>299,451,465</u>
Less Accumulated Depreciation for:				
Buildings	21,883,601	1,759,411	420,517	23,222,495
Improvements Other Than Buildings	42,904,903	3,648,132	-	46,553,035
Machinery and Equipment	4,715,228	382,146	78,263	5,019,111
Total Accumulated Depreciation	<u>69,503,732</u>	<u>5,789,689</u>	<u>498,780</u>	<u>74,794,641</u>
Total Capital Assets, being Depreciated, Net	<u>206,799,745</u>	<u>18,615,905</u>	<u>758,826</u>	<u>224,656,824</u>
Water System Capital Assets, Net	<u>\$ 221,932,939</u>	<u>30,939,558</u>	<u>21,508,854</u>	<u>231,363,643</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Lincoln Electric System:				
Capital Assets, not being Depreciated:				
Construction in Progress	\$ 127,068,000	93,243,000	117,478,000	102,833,000
Capital Assets, being Depreciated:				
Utility Plant	654,127,000	116,932,000	2,088,000	768,971,000
Less Accumulated Depreciation	248,352,000	22,409,000	3,258,000	267,503,000
Total Capital Assets, being Depreciated, Net	<u>405,775,000</u>	<u>94,523,000</u>	<u>(1,170,000)</u>	<u>501,468,000</u>
Electric System Capital Assets, Net	<u>\$ 532,843,000</u>	<u>187,766,000</u>	<u>116,308,000</u>	<u>604,301,000</u>

During 2004, Lincoln Wastewater System incurred \$2,350,601 of interest cost, of which \$1,387,029 was capitalized into construction in progress. Lincoln Water System incurred \$2,284,384 of interest cost, of which \$432,988 was capitalized into construction in progress. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets.

Lincoln Electric System utility plant includes an allowance for funds used during construction of projects costing in excess of \$2 million. The allowance for funds used during construction consists of interest costs on proceeds of commercial paper notes/bonds, less net earnings on proceeds temporarily invested. The weighted-average rate for 2003 was 4.9%.

CITY OF LINCOLN, NEBRASKA
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(8) **PROPERTY TAXES**

The Home Rule Charter of the City imposes a tax ceiling for general revenue purposes. The City tax ceiling was established by using the September 1, 1966, City dollar tax limit as an initial tax limit, and increasing that tax limit each year following 1966 by 7% so that in each fiscal year thereafter the amount of the City tax limit shall be the amount of the City tax limit for the previous year plus 7% thereof. In addition, the City has the power to levy taxes each year sufficient to pay any judgment existing against the City, the interest on bonded debt, and the principal on bonded debt maturing during the fiscal year or within 6 months thereafter, as well as taxes authorized by state law. The 2003 tax levy, for the 2003-2004 fiscal year, was \$51,549,744 below the legal limit, with a tax rate per \$100 valuation of \$0.29100. The assessed value upon which the 2003 levy was based was \$12,744,105,392.

The tax levies for all political subdivisions in Lancaster County are certified by the County Board on or before October 15th. Real estate taxes are due on December 31st and attach as an enforceable lien on property on January 1st following the levy date and become delinquent in two equal installments on April 1st and August 1st. Personal property taxes are due December 31st and become delinquent on April 1st and August 1st following the levy date. Delinquent taxes bear 14% interest.

Property taxes levied for 2003-2004 are recorded as revenue when expected to be collected within 60 days after August 31, 2004. Prior-year levies were recorded using these same principles, and remaining receivables are re-evaluated annually. Property taxes expected to be collected after 60 days are recorded as deferred revenue on the fund balance sheets.

The City-owned electric utility is required by City Charter to make payments in lieu of taxes, aggregating 5% of its gross retail operating revenues derived from within the city limits of incorporated cities and towns served.

(9) **LONG-TERM DEBT**

The City issues general obligation, special assessment, and revenue bonds to finance the acquisition and construction of major capital assets. Bonded indebtedness has also been entered into to advance refund several general obligation and revenue bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Special assessment bonds are repaid from amounts levied against affected property owners, but in the unlikely event collections are not sufficient to make debt payments, the responsibility rests with the City to meet that obligation. For revenue bonds the government pledges income derived from the acquired or constructed assets to pay the debt service.

Net assets of \$6,910,648, \$3,187,150, \$5,233,865, and \$7,344,884 are currently available in the debt service funds to service the General Obligation Bonds, Tax Supported Bonds, Tax Allocation Bonds, and Special Assessment Bonds, respectively. Revenue Bonds are funded partially from reserve accounts set up for debt repayment and partially from proceeds of daily operations.

The City has entered into lease agreements for financing the acquisition of land, buildings, emergency ambulances and defibrillators, and computer equipment and software. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Assets acquired through capital leases are as follows:

CITY OF LINCOLN, NEBRASKA
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	Governmental Activities	Business-Type Activities
Land	\$ 42,000	\$ 210,000
Buildings	6,350,750	-
Machinery and Equipment	206,597	2,297,420
Less Accumulated Depreciation, (where applicable)	<u>(707,413)</u>	<u>(779,171)</u>
Total	<u>\$ 5,891,934</u>	<u>\$ 1,728,249</u>

Bonds of \$8,330,000 have been issued by the Public Building Commission (see Note 18) to construct a parking facility adjacent to the County-City complex. The City's proportionate share of the garage and the corresponding debt have been reflected as capital leases in the City's financial statements. No proceeds have been recorded and lease payments are not recorded as capital lease payments in the Debt Service funds but rather are recorded as current expenditures in the various individual funds.

Under the City's Home Rule Charter, there is no legal debt limit. The various bond indentures contain significant limitations and restrictions on annual debt service requirements, minimum amounts to be maintained in various bond reserve funds, and minimum revenue bond coverages.

On October 1, 2003, LES issued \$126.3 million in serial and term electric revenue and refunding bonds with interest rates ranging from 3% to 5% and annual maturities of \$2.9 million to \$33.3 million due from 2004 to 2028. These bonds were issued to refund \$45.3 million in outstanding 1993 Series bonds with an average interest rate of 5.2% and to pay the costs of capital improvements to LES's system. LES refunded the remaining portion of the 1993 bonds to restructure its debt and to provide for flexible covenants and business operations. The refunding resulted in an economic gain of \$2.7 million, and an accounting loss of approximately \$6.5 million, which is deferred and is being amortized through 2015, the period over which LES expects to recover the costs. The net proceeds of \$37.3 million plus an additional \$2.7 million of the 1993 series reserve fund were used to repay the 1993 bonds.

In prior years, the City defeased certain bonds by placing the proceeds of the refunding bonds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On August 31, 2004, the following bonds outstanding are considered defeased:

Revenue Bonds:		
08/15/80	Lincoln Wastewater	\$ 5,000

Established by City Ordinance, LES may borrow up to \$125 million under a commercial paper note program. At December 31, 2003, LES had \$90.2 million of tax exempt commercial paper notes outstanding. The notes mature at various dates but not more than 270 days after the date of issuance. The weighted-average interest rate for the year ended December 31, 2003, was 1.1 percent. The annual requirement to pay interest on this outstanding debt is approximately \$992,000. The outstanding commercial paper notes are secured by a revolving credit agreement which provides for borrowings up to \$125 million. LES pays a commitment fee for the credit agreement. Under the terms of the agreement LES refinances the commercial paper upon maturity.

Subsequent to August 31, 2004, Lincoln Water System issued \$40,000,000 of Water Revenue Bonds to provide funds necessary to pay costs for improvements to the Water System. The interest rates on the 2004 bonds range from 3% to 5% and the final maturity is on August 15, 2025. Debt service payments are scheduled annually at amounts that range from \$2,157,000 to \$3,392,000.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Annual requirements to pay principal and interest to maturity on outstanding debt follow (in thousands of dollars):

Fiscal Year Ended August 31	Governmental Activities							
	General Obligation Bonds		Special Assessment Bonds		Tax-Supported Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 4,736	4,430	100	3	565	423	375	293
2006	4,809	3,971	-	-	580	409	543	285
2007	4,485	3,798	-	-	595	392	515	272
2008	4,737	3,632	-	-	615	372	537	259
2009	5,604	3,453	-	-	635	350	546	242
2010 - 2014	26,584	14,023	-	-	3,575	1,334	2,563	930
2015 - 2019	28,530	7,652	-	-	3,690	335	1,811	461
2020 - 2024	19,330	2,163	-	-	-	-	895	89
	<u>\$ 98,815</u>	<u>43,122</u>	<u>100</u>	<u>3</u>	<u>10,255</u>	<u>3,615</u>	<u>7,785</u>	<u>2,831</u>

Fiscal Year Ended August 31	Business-Type Activities			
	Revenue Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2005	\$ 19,915	27,188	418	60
2006	17,730	26,840	432	44
2007	18,515	26,106	323	26
2008	22,200	25,258	333	12
2009	23,175	24,271	23	3
2010 - 2014	121,265	104,229	25	1
2015 - 2019	144,935	72,831	-	-
2020 - 2024	114,195	36,381	-	-
2025 - 2029	90,430	13,240	-	-
	<u>\$ 572,360</u>	<u>356,344</u>	<u>1,554</u>	<u>146</u>

Major fund annual requirements to pay principal and interest to maturity on outstanding debt follow (in thousands of dollars):

Fiscal Year Ended August 31	Major Funds					
	Wastewater System		Water System		Electric System	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 1,500	2,405	4,000	2,256	12,980	21,594
2006	1,520	2,359	4,175	2,072	10,545	21,534
2007	1,545	2,313	4,365	1,879	11,050	21,103
2008	1,580	2,274	4,560	1,672	14,430	20,570
2009	1,620	2,235	4,775	1,454	15,085	19,916
2010 - 2014	8,855	10,214	15,750	4,084	87,810	87,880
2015 - 2019	10,600	8,028	5,760	1,937	126,760	62,362
2020 - 2024	13,135	5,143	4,190	426	96,010	30,746
2025 - 2029	12,895	1,638	-	-	77,555	11,602
	<u>\$ 53,250</u>	<u>36,609</u>	<u>47,575</u>	<u>15,780</u>	<u>452,205</u>	<u>297,307</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Long-term liability activity for the year ended August 31, 2004, was as follows (in thousands of dollars):

	09/01/03 Beginning Balance	Additions	Reductions	08/31/04 Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Leases Payable:					
General Obligation Bonds	\$ 57,865	35,000	(3,215)	89,650	3,850
Municipal Infrastructure Redevelopment Bonds	2,395	-	(305)	2,090	320
Tax Allocation Bonds	1,294	6,535	(754)	7,075	566
Special Assessment Debt with Government Commitment	205	-	(105)	100	100
Tax-Supported Antelope Valley Project Bonds	10,810	-	(555)	10,255	565
Capital Leases	1,680	6,430	(325)	7,785	375
Gross Bonds and Leases Payable	74,249	47,965	(5,259)	116,955	5,776
Deferred Amounts:					
For Issuance Premiums	388	1,919	(24)	2,283	-
For Issuance Discounts	(3)	(6)	-	(9)	-
Net Bonds and Leases Payable	74,634	49,878	(5,283)	119,229	5,776
Other Liabilities:					
Compensated Absences	7,257	5,808	(5,149)	7,916	5,595
Claims and Judgements	5,144	1,702	(1,851)	4,995	2,336
Net Pension Obligation	130	1,300	-	1,430	-
Governmental Activity Long-Term Liabilities	\$ 87,165	58,688	(12,283)	133,570	13,707
Business-Type Activities:					
Bonds, Notes and Leases Payable:					
Water Revenue Bonds	\$ 50,690	-	(3,115)	47,575	4,000
Wastewater Revenue Bonds	55,000	-	(1,750)	53,250	1,500
Parking Revenue Bonds	18,185	-	(1,145)	17,040	1,140
Golf Course Revenue Bonds	2,580	-	(290)	2,290	295
Electric System Revenue Bonds	372,865	126,310	(46,970)	452,205	12,980
Commercial Paper Notes	90,173	-	-	90,173	-
Capital Leases	1,349	612	(407)	1,554	418
Gross Bonds, Notes and Leases Payable	590,842	126,922	(53,677)	664,087	20,333
Deferred Amounts:					
For Issuance Premiums	21,689	2,154	(2,411)	21,432	-
For Issuance Discounts	(26,766)	(311)	3,578	(23,499)	-
For Refunding	(1,257)	(3,084)	141	(4,200)	-
Net Bonds, Notes and Leases Payable	584,508	125,681	(52,369)	657,820	20,333
Other Liabilities:					
Compensated Absences	999	811	(714)	1,096	770
Business-Type Activity Long-Term Liabilities	\$ 585,507	126,492	(53,083)	658,916	21,103

Internal Service funds predominantly serve the governmental funds. Therefore, their long-term liabilities are included with the governmental activities above. Compensated absences for governmental activities are generally liquidated in the General Fund as well as various other Special Revenue and Internal Service funds where personal costs are incurred. The claims and judgements liability will generally be liquidated through the City's Insurance Revolving Internal Service Fund, which will finance the payment of those claims by charging other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Long-term liability activity for the major enterprise funds for the year ended August 31, 2004, was as follows (in thousands of dollars):

	09/01/03 Beginning Balance	Additions	Reductions	08/31/04 Ending Balance	Due Within One Year
Lincoln Wastewater System:					
Bonds Payable:					
Wastewater Revenue Bonds	55,000	-	(1,750)	53,250	1,500
Deferred For Issuance Premiums	2,009	-	(81)	1,928	-
Net Bonds Payable	57,009	-	(1,831)	55,178	1,500
Other Liabilities:					
Compensated Absences	331	270	(230)	371	256
Total Long-Term Liabilities	<u>\$ 57,340</u>	<u>270</u>	<u>(2,061)</u>	<u>55,549</u>	<u>1,756</u>
Lincoln Water System:					
Bonds Payable:					
Water Revenue Bonds	\$ 50,690	-	(3,115)	47,575	4,000
Deferred for Issuance Premiums	2,443	-	(257)	2,186	-
Deferred for Refunding	(1,216)	-	136	(1,080)	-
Net Bonds Payable	51,917	-	(3,236)	48,681	4,000
Other Liabilities:					
Compensated Absences	430	313	(268)	475	288
Total Long-Term Liabilities	<u>\$ 52,347</u>	<u>313</u>	<u>(3,504)</u>	<u>49,156</u>	<u>4,288</u>
Lincoln Electric System:					
Bonds and Notes Payable:					
Electric System Revenue Bonds	\$ 372,865	126,310	(46,970)	452,205	12,980
Commercial Paper Notes	90,173	-	-	90,173	-
Deferred for Issuance Premiums	17,237	2,154	(2,073)	17,318	-
Deferred for Issuance Discounts	(26,766)	(311)	3,578	(23,499)	-
Deferred for Refunding	-	(3,084)	-	(3,084)	-
Total Long-Term Liabilities	<u>\$ 453,509</u>	<u>125,069</u>	<u>(45,465)</u>	<u>533,113</u>	<u>12,980</u>

(10) FAIR VALUE OF FINANCIAL INSTRUMENTS

In the opinion of management, the carrying value of financial instruments, including commercial paper notes, of the City's utility proprietary funds (Lincoln Wastewater, Lincoln Water, and Lincoln Electric Systems) is presented in the City's financial statements at values which approximated fair value at August 31, 2004, (December 31, 2003 for Lincoln Electric System), with the exception of LES' long-term debt for which the estimated fair value is \$483,000,000.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

(11) SEGMENT INFORMATION

The City has issued revenue bonds and other debt instruments to finance capital construction and acquisitions for both the Parks and Recreation and Public Works/Utilities Departments. The Golf Division of the Parks and Recreation Department operates the City's golf courses and is accounted for in the Golf Fund. The Parking Facilities Division of the Public Works/Utilities Department operates the City's downtown parking garages and is accounted for in the Parking Facilities Fund. Summary financial information as of and for the year ended August 31, 2004, for these two divisions is presented as follows:

	Golf	Parking Facilities
CONDENSED STATEMENT OF NET ASSETS		
Assets:		
Current Assets	\$ 84,564	3,830,130
Restricted Assets	426,963	2,565,055
Deferred Charges	55,639	495,173
Capital Assets	<u>7,876,539</u>	<u>36,375,466</u>
Total Assets	<u>8,443,705</u>	<u>43,265,824</u>
Liabilities:		
Current Liabilities	546,834	374,331
Due to Other Funds	116,220	3,106
Current Liabilities Payable from Restricted Assets	298,894	1,216,658
Noncurrent Liabilities	<u>2,383,917</u>	<u>15,900,018</u>
Total Liabilities	<u>3,345,865</u>	<u>17,494,113</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,053,403	19,830,639
Restricted	704,969	2,488,397
Unrestricted	<u>(660,532)</u>	<u>3,452,675</u>
Total Net Assets	<u>\$ 5,097,840</u>	<u>25,771,711</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating Revenues	\$ 2,896,171	5,325,668
Depreciation Expense	(593,452)	(1,022,072)
Other Operating Expenses	<u>(2,467,141)</u>	<u>(2,733,492)</u>
Operating Income (Loss)	(164,422)	1,570,104
Nonoperating Revenues (Expenses):		
Investment Earnings	3,499	138,930
Loss on Disposal of Capital Assets	(26,831)	(28,467)
Interest Expense and Fiscal Charges	(131,846)	(947,270)
Capital Contributions	<u>12,716</u>	<u>-</u>
Change in Net Assets	<u>(306,884)</u>	<u>733,297</u>
Beginning Net Assets	5,404,724	25,038,414
Ending Net Assets	<u>\$ 5,097,840</u>	<u>25,771,711</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net Cash Provided (Used) by:		
Operating Activities	\$ 385,668	2,725,848
Noncapital Financing Activities	110,738	-
Capital and Related Financing Activities	(640,847)	(2,584,499)
Investing Activities	<u>153,147</u>	<u>148,012</u>
Net Increase in Cash	8,706	289,361
Beginning Balance	96,803	1,028,210
Ending Balance	<u>\$ 105,509</u>	<u>1,317,571</u>

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

(12) DEFICIT NET ASSETS

The following funds had a net asset or fund balance deficit as of August 31, 2004:

Major Governmental - Federal Grants Fund	\$ (328,692)
Special Revenue - Impact Fees Fund	(2,666)
Enterprise - Emergency Medical Services Fund	(146,575)
Internal Service - Engineering Revolving Fund	(182,930)

(13) EMPLOYEES' RETIREMENT PLANS

The employees of the City are covered by several retirement plans. Article II Section 3 of the Lincoln Charter assigns the authority to establish and amend benefit provisions of the various plans to the City Council. The Police and Fire Department Plan (PFDP) is administered by the City and is included in the Fiduciary Fund type. All other plans are administered by outside trustees and are not included in the City's basic financial statements.

POLICE AND FIRE PENSION

Plan Description - PFDP is a single-employer defined benefit pension plan administered by the City of Lincoln. PFDP provides retirement, disability, and death benefits to plan members and beneficiaries. PFDP recognizes plan member contributions in the period in which they are due. Employer contributions are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Cost-of-living adjustments are provided to members and beneficiaries in accordance with the plan document. The City does not issue a separate report that includes financial statements and required supplementary information for PFDP.

The City has established the Deferred Retirement Option Plan (DROP) for police and fire pension members. The DROP program allows a member to retire for pension purposes, but to continue working. The member receives a paycheck and the member's monthly pension benefit is deposited into the member's DROP account. At the end of five years, or anytime before five years, the member must "retire-in-fact". Contributions to the pension are eliminated at the beginning of the DROP period. Pension benefits are set, and will not be increased because of raises, promotions, increased years of service or pension enhancements. When a member retires-in-fact, their monthly pension benefit will be paid directly to them and the member will have access to the funds in their DROP account.

Membership of the pension plan consisted of the following at August 31, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	316
Terminated plan members entitled to but not yet receiving benefits	25
Active plan members (non-DROP)	533
DROP members	70
Total	<u>944</u>
Number of participating employers	<u>1</u>

Funding Policy - The contribution requirements of plan members and the City are established by City Ordinance #15728 dated September 24, 1990, and may be amended by the City Council. Plan members are required to contribute between 7% and 8% of their annual covered salary based on an election made by the employee. The City is required to contribute at an actuarially determined rate; the rate for fiscal year 2004 was 12.83% of annual covered payroll. Actual contributions by the City were 7.1% of annual covered payroll. Administrative costs of PFDP are financed through investment earnings.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

Annual Pension Cost and Net Pension Obligation – The City's annual pension cost and net pension obligation to PFDP for the current year were as follows:

(Dollar amounts in thousands)

Annual required contribution	\$ 3,297
Interest on net pension obligation	10
Adjustment to annual required contribution	(15)
Annual pension cost	3,292
Contributions made	1,992
Increase in net pension obligation	1,300
Net pension obligation beginning	130
Net pension obligation ending	<u>\$ 1,430</u>

The annual required contribution for the current year was determined as part of the August 31, 2002, actuarial valuation using the entry age actuarial funding method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4.5 to 8.5% per year, and (c) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using a four year smoothed market method. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of ten years.

Three-Year Trend Information
(Dollar Amounts in Thousands)

Year Ended August 31	Annual Pension Cost (APC)	Annual Pension Contribution	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 3,292	\$ 1,992	61 %	\$ 1,430
2003	2,287	1,783	78	130
2002	1,989	1,585	80	(374)

Required Supplementary Information (Unaudited)

Schedule of Funding Progress
(Dollar Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll *	UAAL as a Percentage of Covered Payroll ((b-a)/c)
August 31, 2004	\$ 136,974	\$ 144,179	\$ 7,205	95.0 %	\$ 28,125	25.6 %
August 31, 2003	132,578	137,508	4,930	96.4	27,415	18.0
August 31, 2002	128,319	130,875	2,556	98.0	26,607	9.6
August 31, 2001	128,070	122,661	(5,409)	104.4	28,216	(19.2)
August 31, 2000	121,404	115,671	(5,733)	105.0	25,808	(22.2)
August 31, 1999	113,903	104,692	(9,211)	108.8	23,611	(39.0)

* Non-DROP payroll in 2002 and later

Schedule of Employer Contributions
(Dollar Amounts in Thousands)

Year Ended August 31	Annual Required Contribution	Annual Pension Contribution	Percentage Contributed
2004	\$ 3,297	\$ 1,992	60 %
2003	2,234	1,781	80
2002	1,878	1,542	82
2001	821	1,111	135
2000	92	941	1023
1999	962	908	94

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

ELECTRIC SYSTEM

The City owns and operates its own electric system which is included in the enterprise funds in the accompanying basic financial statements. The electric system is controlled and managed by an administrative board and is not supported by the City's general tax revenues. The electric system provides retirement benefits to its employees under its own separate plan, such benefits being funded solely from revenues derived from the operation of the electric system. A summary of the electric system plan is as follows:

LES has a defined contribution retirement plan covering all employees upon employment; however, employees are not eligible to receive employer contributions until they have been employed six months. The plan is a straight-money purchase plan, administered by a financial institution. LES' contribution is equal to 200% of the employees' contributions which range from 2% to 5% of gross wages. This plan and related contribution requirements were authorized by the administrative board of directors under LES' retirement plan, on October 12, 1972, (latest restatement June 15, 1989). Vesting of LES contributions occurs over a five-year period. Employee forfeitures are used to reduce employer contributions. Vested benefits are fully funded. LES incurred contribution expense of approximately \$2,469,000 (9.3% of covered payroll) and its employees contributed approximately \$1,395,000 (5.3% of covered payroll).

DEPARTMENT DIRECTORS

Directors of City departments are eligible the first of the month following the date employed to be covered by the Director's Money Purchase Plan, established by City Ordinance, and administered by an insurance company. The Plan is a defined contribution plan requiring the City to contribute 6% of the first \$4,800 of earned income plus 12% of earned income over \$4,800 in one calendar year. Employees covered by the Plan may also make voluntary contributions. Participant accounts are immediately 100% vested. Total and covered payroll for the year ended December 31, 2003, was \$1,388,932. City contributions totaled \$162,020 or 11.7% of covered payroll. There were no voluntary employee contributions made for the year ended December 31, 2003.

ALL OTHER CITY EMPLOYEES

All other City employees are eligible after 6 months' service and age 19 to be covered under the City's Money Purchase Pension Plan, established by City Ordinance, and administered by an insurance company. Enrollment in the program is mandatory at age 40 with 5 years service. Vesting occurs in increments between 3 and 7 years of enrollment in the plan. The Plan is a defined contribution plan requiring employees to contribute 3% of earnings on the first \$4,800 and 6% on the balance of earnings. Currently, the City contributes 200% of the employees' contributions. Employee forfeitures are used to reduce employer contributions. Employees covered by the Plan may also make voluntary contributions. During the year ended December 31, 2003, total payroll was approximately \$63,332,000 and covered payroll was approximately \$52,463,000. City contributions totaled \$5,802,287 or 11.0% of covered payroll and employee contributions totaled \$2,956,419 or 5.6% of covered payroll. Employees made \$40,587 in voluntary contributions for the year ended December 31, 2003.

(14) COMMITMENTS AND CONTINGENCIES

GENERAL

The City participates in a number of federally assisted grant programs. Federal financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, City officials do not believe that such amounts would be significant.

The City is a defendant in a number of lawsuits and claims in its normal course of operations. Management is currently of the opinion that ultimate settlement of such lawsuits and claims will not have a materially adverse effect on the financial statements.

CITY OF LINCOLN, NEBRASKA
Notes to the Financial Statements
August 31, 2004

The City has been identified as a potentially responsible party (PRP) or equivalent status in relation to several sites with environmental remediation activities. Management currently believes that the liability of the City in connection with these activities will be immaterial. However, the ultimate cost will depend on the extent of remediation required. Management does not believe that changes in these cost estimates will have an adverse effect on the City's financial condition or results of operations.

The City of Lincoln owns a solid waste disposal area which discontinued operations in 1990, but still requires certain closure and postclosure care, including the construction of final cover soil, monitoring of groundwater conditions and landfill gas migration, and general site maintenance. While accrual of closure and postclosure care costs has been reflected in the financial statements in the current year, additional corrective action costs related to landfill gas migration and groundwater conditions may be identified once testing is completed and regulatory officials have made a final review of reported findings.

STREET CONSTRUCTION PROJECTS

The City's Street Construction Capital Projects Fund has commitments under major construction contracts in progress of approximately \$20,000,000 as of August 31, 2004, which will be financed primarily through highway user fees, bond proceeds, federal and state grants, and developer contributions.

LINCOLN WASTEWATER SYSTEM

The Lincoln Wastewater System has commitments under major construction contracts in progress of approximately \$4,700,000 at August 31, 2004. In September 2004 additional construction commitments of approximately \$40,000,000 were entered into.

Lincoln Wastewater System has commitments to fund Lincoln Water System's purchase of automated meter reading system equipment. Under the agreement, Lincoln Wastewater System will fund approximately \$400,000 per year for an additional three years. The maximum remaining commitment is approximately \$1,200,000 at August 31, 2004.

LINCOLN WATER SYSTEM

The Lincoln Water System has commitments under major construction contracts in progress of approximately \$4,700,000 as of August 31, 2004.

Lincoln Water System has commitments to purchase approximately \$1,000,000 of automated meter reading system equipment for three years. The maximum remaining commitment is approximately \$3,000,000 at August 31, 2004.

LINCOLN ELECTRIC SYSTEM (LES)

Participation Contract with NPPD for Cooper Nuclear Station

On May 21, 1968, LES and Consumers Public Power District, now known as Nebraska Public Power District (NPPD), entered into a Power Sales Contract (PSC) relating to the sale of capacity and energy from Cooper Nuclear Station (CNS). CNS is an approximately 800 megawatt (MW) nuclear generating plant located near Brownville, Nebraska, and is owned and operated by NPPD. The LES share under the original contract was 12.5% of the output of the facility. From 1973 through July 2002, LES received energy from the Cooper facility while contributing fixed and variable expenses equivalent to ownership costs and fuel costs.

During 2002, LES and NPPD entered into a new agreement which includes power supply alternatives for LES that are advantageous for LES' future resource reliability and cost, including a 95 MW energy contract from NPPD at an advantageous fixed cost that will replace energy previously received from CNS.

LES recognized expense for its share of the total fixed demand costs under the new agreement of approximately \$9.1 million in 2003.

Due To	Due From							Total
	General Fund	Street Construction	Federal Grants	Health Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	
General Fund	\$ -	56,531	240,151	83	282,241	1,182,223	3,844	1,765,073
Street Construction	394	-	-	-	2,157,968	-	-	2,158,362
Federal Grants	3,000	-	-	-	-	-	-	3,000
Nonmajor Governmental	9,300	-	5,271	-	544,944	-	-	559,515
Lincoln Wastewater System	-	-	-	-	337,721	-	-	337,721
Lincoln Water System	-	-	-	-	873,440	-	-	873,440
Nonmajor Enterprise	22,358	12,152	-	-	-	-	-	34,510
Internal Service	649,816	5,633	3,524	-	58,031	16,617	32,507	766,128
	<u>\$ 684,868</u>	<u>74,316</u>	<u>248,946</u>	<u>83</u>	<u>4,254,345</u>	<u>1,198,840</u>	<u>36,351</u>	<u>6,497,749</u>

CITY OF LINCOLN, NEBRASKA
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"Due to" and "Due from" balances are recorded when funds overdraw their share of pooled cash. The total due to the General Fund includes \$1,031,773 from the Emergency Medical Services Enterprise Fund for an advance made for cash flow needs. Of this amount, \$776,890 is not expected to be repaid within one year. All remaining balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers To/From Other Funds at August 31, 2004, consists of the following:

	Transfers From							Total
	General Fund	Street Construction	Federal Grants	Nonmajor Governmental	Lincoln Electric System	Nonmajor Enterprise	Internal Service	
General Fund	\$ -	-	10,250	349,184	1,128,665	-	-	1,488,099
Street Construction	771,800	-	53,000	6,668,936	-	8,907	-	7,502,643
Federal Grants	584,389	-	-	182,806	-	-	-	767,195
Nonmajor Governmental	16,878,890	1,498,233	-	3,619,008	-	611,680	5,850	22,613,661
Nonmajor Enterprise	593,368	-	-	-	-	-	-	593,368
Internal Service	2,284	451,553	-	-	-	-	-	453,837
Total	\$ 18,830,731	1,949,786	63,250	10,819,924	1,128,665	620,587	5,850	33,418,803

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The variance of \$335 on the Statement of Activities transfers is caused by the different fiscal year end dates used by the City (August 31) and Lincoln Electric System (December 31). Lincoln Electric System records an estimate for payments in lieu of taxes as an accrued liability at the end of their fiscal year. The City however, receives the transfer before the August 31 fiscal year end, and records the exact amount as a transfer in.

(16) RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees and the public; or acts of God. For the year ended August 31, 2004, the City has a self-insured retention for workers' compensation exposures up to \$500,000 per individual; building and contents exposures up to \$50,000 per occurrence; law enforcement liability exposures up to \$350,000 per occurrence; general liability exposures up to \$250,000 per occurrence; public officials exposures up to \$250,000 per occurrence; public transportation liability exposures up to \$250,000 per occurrence; auto liability exposures up to \$250,000, and employee long-term disability benefits, all of which are covered under the Insurance Revolving Fund which is included in the internal service funds. The self-insurance programs are administered through the Risk Management Division.

Workers' compensation is covered by a policy which provides statutory limits above the City's retention of \$500,000 per individual. Law enforcement liability is covered by a policy which provides limits of \$5 million per occurrence and \$6 million in annual aggregate. General liability is covered by a policy which provides limits of \$5 million per occurrence and \$6 million in annual aggregate. Public officials liability is covered by a policy which provides limits of \$5 million per occurrence and \$5 million in annual aggregate. Auto liability and public transportation liability are covered by a policy which provides a limit of \$5 million. The Nebraska Political Tort Claims Act limits the City's liability for tort claims to \$1 million per individual and \$5 million per occurrence. Settled claims have not exceeded coverage in any of the past three fiscal years.

The City annually retains the services of independent actuaries to analyze the self-insured workers' compensation, general liability, public transportation liability, law enforcement liability, auto liability,

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and long-term disability exposures. Such analysis has been used to assist the City with its financial planning and management of the self-insurance program. Included in the specific objectives of the studies were to:

- Estimate the outstanding liabilities for the current fiscal year ended August 31,
- Forecast ultimate incurred losses and incurred but not reported losses for future years, and
- Estimate the required funding level for the City's self-insured liabilities.

The City funds its self-insurance program on an "incurred loss" basis. The governmental and proprietary funds pay annual premium amounts, based on past experience of incurred losses, to the Insurance Revolving Fund. Claim liabilities of \$4,995,121 were recorded at August 31, 2004. This is the actuarially estimated amount of claims based on an estimate of ultimate incurred and incurred but not reported losses as of that date and is calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs, and other economic and social factors. These liabilities have been discounted using a 4.0% discount rate and a claim payment pattern based on the historical data of the City. The City has purchased no annuity contracts in the current fiscal year to resolve City of Lincoln claims.

The following is a summary of the changes in the estimated claims liability for the years ended August 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Balance at September 1	\$ 5,143,840	5,507,344
Current year claims and changes in estimates	1,702,660	1,805,085
Claims payments	<u>(1,851,379)</u>	<u>(2,168,589)</u>
Balance at August 31	<u>\$ 4,995,121</u>	<u>5,143,840</u>

(17) **LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

The City of Lincoln currently owns and operates a solid waste disposal area and a construction and demolition disposal area. State and federal laws require the City to close the landfills once capacity is reached and to monitor and maintain the site for thirty subsequent years on the solid waste disposal area and five subsequent years on the construction and demolition disposal area. Although certain closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

At August 31, 2004, the City had incurred a liability of approximately \$4,579,000 for the solid waste disposal area which represents the amount of costs reported to date based on the approximately 33 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$9.3 million, which will be recognized as the remaining capacity is used (estimated to be approximately 22 years).

As of August 31, 2004, the City had incurred a liability of approximately \$524,000 for the construction and demolition disposal area which represents the amount of costs reported to date based on the approximately 47 percent of landfill capacity used to date. The remaining estimated liability for these costs is approximately \$589,000, which will be recognized as the remaining capacity is used (estimated to be approximately 15 years).

The estimated costs of closure and postclosure care, as determined by an independent engineering consultant, are subject to changes including the effects of inflation, revision of laws, changes in technology, actual sequence of landfill development and closure, and other variables.

The City of Lincoln, in a review by the Nebraska Department of Environmental Quality (NDEQ), has demonstrated compliance with the financial assurance requirements as specified in Title 132 - *Integrated Solid Waste Management Regulations*, through the Local Government Financial Test.

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The City of Lincoln also owns a solid waste disposal area which discontinued operations in 1990. Although exempt from the U.S. Environmental Protection Agency Solid Waste Disposal Facility Criteria issued October 9, 1991, the City must still adhere to certain closure and postclosure care requirements under prior legislation, including the construction of final cover soil, monitoring of ground water conditions and landfill gas migration, and general site maintenance. At August 31, 2004, a liability for closure and postclosure care costs is recorded in the amount of approximately \$2,135,000, which is based on appropriations identified in the City's capital improvement projects budgeting process. Additional corrective action costs related to possible landfill gas migration and groundwater conditions will be identified once testing is completed and regulatory officials have made a final review of subsequent findings. Consequently, costs associated with the potential corrective action have not been accrued as of August 31, 2004.

(18) PUBLIC BUILDING COMMISSION

In 1990, the City and the County of Lancaster, pursuant to state statute, activated a separate governmental entity denominated as the Lincoln-Lancaster County Public Building Commission. The purpose of this joint venture is to design, acquire, construct, maintain, operate, improve, remodel, remove and reconstruct, so long as its corporate existence continues, public buildings, structures, or facilities for use jointly by the City and the County. The City and the County each appoint two members to the five-member Commission, with the fifth member being appointed by the other four members. All property held or acquired by the Commission is held or acquired in the name of the City and the County for use by the Commission in its corporate capacity. The Commission's costs of operation and debt service are funded through rental payments made by the City and the County based upon their proportionate occupancy of such buildings to the extent not covered by a maximum property tax levy of 1.7 cents for each \$100 of actual valuation of taxable property in the County. For the year ended August 31, 2004, the City made rental payments of approximately \$2 million to the Commission.

As of August 31, 2004, the Commission has bonds outstanding of \$48,725,000 attributable to several bond issues. Certain proceeds from the bonds totaling \$13,730,000 have been utilized by the Commission to acquire, construct, and/or renovate certain buildings occupied by the City and County. The City's proportionate share of such buildings are recorded as capital assets and the corresponding debt are reflected as capital leases in the City's financial statements. Lease payments are not recorded as capital lease payments in the Debt Service funds but rather are recorded as current expenditures in the various individual funds.

Additional bond proceeds, totaling \$29,000,000, have been utilized by the Commission to construct a new County-City building and to renovate the prior County-City building to be used as a Hall of Justice. It is estimated that the City occupies approximately 65% of the new building and 38% of the renovated building (Hall of Justice). It is anticipated that property tax levies by the Commission will be sufficient to meet bond principal and interest payments. Should revenues from such property tax levies not be sufficient to meet debt service requirements in any given year, the City and County would contribute the necessary payments based on their proportionate occupancy in such buildings. Such contributions are expected to be minimal and will be expensed in the appropriate funds when incurred. The City's proportionate share of the buildings has been recorded in capital assets in accordance with the terms of the joint venture agreement regarding the ultimate transfer of assets to the City and County.

Bonds of \$11,295,000 have been issued to acquire land, construct and furnish an addition to the Lincoln-Lancaster County Health Department building, construct additional parking facilities, and renovate and improve the current Health facilities. The City's proportionate share of the Health facilities renovations will be recorded in capital assets and capital leases upon completion, in relation to the ultimate transfer of the asset to the City and County.

Complete separate financial statements for the Commission may be obtained at the Lincoln-Lancaster County Public Building Commission, 920 "O" Street, Room 203, Lincoln, Nebraska 68508.

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(19) JOINT ANTELOPE VALLEY AUTHORITY

Joint Antelope Valley Authority (JAVA) is a joint administrative entity created April 15, 2000, in accordance with Article XV, Section 18 of the Constitution of the State of Nebraska and Nebraska Revenue Statutes Sections 13.801 through 13.827 (1997) authorizing the creation of a joint entity by public agencies. Per an interlocal cooperative agreement by and between the Board of Regents of the University of Nebraska, a public body corporate, the City of Lincoln, Nebraska, a municipal corporation, and the Lower Platte South Natural Resources District, a political subdivision of the State of Nebraska. JAVA constitutes a separate administrative entity, exercising the public power granted by the interlocal cooperation agreement on behalf of the three aforementioned "Partners" to coordinate planning and implementation of a public project described in the Antelope Valley Study and the U.S. Army Corps of Engineers Antelope Creek Feasibility Study (the Project). The Project generally includes community revitalization, transportation, and drainage/flood control improvements.

After completion of a specific component of the Project, JAVA will transfer all real estate and improvements thereon to the appropriate individual Partner, subject to the necessary and agreed upon easements which will be conveyed to such Partner or other appropriate public or private entity, or reserved by such a Partner, for the operation, maintenance, repair, and inspection of each specific component.

During the implementation period of the agreement, JAVA shall have the power and authority to acquire and condemn property rights, borrow, mortgage, pledge, or secure loans and bond its appropriated revenues and assets; provided, however, that JAVA shall have no power and authority to bond the credit or revenues of the three Partners or each Partner, or levy taxes.

Complete separate financial statements for JAVA may be obtained at the City of Lincoln Public Works Business Office, 555 South 10th Street, Lincoln, Nebraska 68508.

(20) JOINTLY GOVERNED ORGANIZATIONS

District Energy Corporation

LES, in conjunction with two other governmental entities, created the District Energy Corporation (DEC) in 1989 to own, operate, maintain, and finance the heating and cooling facilities utilized by certain city, county, and state buildings. The Board of Directors of DEC is comprised of five members: two appointed by the county board of commissioners, two by the Mayor of Lincoln who must be confirmed by the City Council, and one by LES. No participant has any obligation, entitlement, or residual interest.

The DEC Board of Directors, under a twenty year management agreement, have appointed LES to supervise and manage the system and business affairs of DEC. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to DEC at an established interruptible commercial rate. The total amount of payments to LES for management, operations, and maintenance services was approximately \$144,000 in 2003. The total amount of payments to LES for energy was approximately \$68,000 in 2003.

Nebraska Utility Corporation

On May 17, 2001, LES, in conjunction with another governmental entity, created the Nebraska Utility Corporation (NUCorp) to purchase, lease, construct, and finance facilities and to acquire services in order to furnish energy requirements, utility and infrastructure services, and all related energy, utility, and infrastructure services to counties, cities, villages, school districts, sanitary and improvement districts, or other municipal corporations or political subdivisions of the State of Nebraska or political subdivisions of another state. The Board of Directors of NUCorp is comprised of five members: three members appointed by the University of Nebraska and two members appointed by LES. No participant has any obligation, entitlement, or residual interest.

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Operations commenced in January 2002. The NUCorp board of directors, under a twenty-year management agreement, has appointed LES to supervise and manage the system and business affairs of NUCorp. LES is reimbursed for these management services based on the allocated actual costs of these services. LES also provides electric energy to NUCorp on an established rate schedule. The total payment to LES for management, operations, and maintenance services was approximately \$83,000 in 2003. The total amount of payments to LES for energy was approximately \$4.9 million in 2003.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE LEASE

THE LEASE

The following is a summary of certain provisions of the Lease. This summary is qualified in all respects by reference to the Lease for a complete description of the rights and obligations of the parties thereto. Copies of the Lease may be obtained from the Registrar. The Lease is entered into by and between the Lessor and the City for the purpose of financing the costs of purchasing a supply of light poles and related equipment for use by the City.

Lease Term

The term of the Lease shall be for a period of 9 years, 11 months and 21 days, commencing August 25, 2005 and concluding August 15, 2015; provided, however, that the lease period for all items of Leased Property shall terminate upon the earliest of any of the following events:

- (a) the exercise by the City of the option to purchase the Leased Property granted under the Lease;
- (b) a default by the City and the Lessor's election to terminate the Lease; or
- (c) the payment by the City of all Rental Payments (hereinafter defined) authorized or required to be paid by the City hereunder.

Rental Payments

The City shall pay to the Lessor basic cash rent (each payment a **"Rental Payment"** and collectively, the **"Rental Payments"**) in the total amount of Two Million One Hundred Fifty-One Thousand One Hundred Sixty-Nine and 79/100 Dollars (\$2,151,169.79), a portion of which represents the payment of interest, as set forth in the following schedule:

<u>Lease Payment Date</u>	<u>Principal Installment Due</u>	<u>Interest Installment Due</u>	<u>Total Amount Due</u>
February 15, 2006	\$ 0.00	\$28,818.54	\$ 28,818.54
August 15, 2006	155,000.00	30,513.75	185,513.75
February 15, 2007	0.00	28,382.50	28,382.50
August 15, 2007	160,000.00	28,382.50	188,382.50
February 15, 2008	0.00	25,942.50	25,942.50
August 15, 2008	165,000.00	25,942.50	190,942.50
February 15, 2009	0.00	23,385.00	23,385.00
August 15, 2009	170,000.00	23,385.00	193,385.00
February 15, 2010	0.00	20,622.50	20,622.50
August 15, 2010	175,000.00	20,622.50	195,622.50
February 15, 2011	0.00	17,691.25	17,691.25
August 15, 2011	180,000.00	17,691.25	197,691.25
February 15, 2012	0.00	14,541.25	14,541.25
August 15, 2012	185,000.00	14,541.25	199,541.25
February 15, 2013	0.00	11,211.25	11,211.25
August 15, 2013	190,000.00	11,211.25	201,211.25
February 15, 2014	0.00	7,696.25	7,696.25
August 15, 2014	200,000.00	7,696.25	207,696.25
February 15, 2015	0.00	3,946.25	3,946.25
August 15, 2015	<u>205,000.00</u>	<u>3,946.25</u>	<u>208,946.25</u>
TOTALS	\$1,785,000.00	\$366,169.79	2,151,169.79

The City shall not be required to make a Rental Payment to the extent there are funds on deposit in the **"Payment Fund"** (established in the Lease) which are available and may be applied to such Rental Payment on the date such Rental Payment is due and owing.

Purchase Option; Defeasance

The City has been granted the option under the Lease to purchase the Leased Property at any time, at a purchase price equal to the amount which, together with investment earnings thereon, is sufficient to pay the principal of and interest on the Certificates to maturity or such date of redemption for the Certificates as shall be specified by the City in the notice hereinafter referred to, plus such amount as shall be necessary to pay the Registrar's fees and expenses accrued and to accrue until final payment and redemption of the Certificates. The City shall give notice of its election to purchase the Leased Property granted in the Lease not less than 30 days prior to the day specified in such notice for the closing of the purchase of the Leased Property. Upon the giving of such notice and the deposit of the money required under the Lease, the Lessor shall release and discharge all financing and continuation statements and take all other actions as provided by the Lease.

Covenants of the City

The City has covenanted in the Lease, among other things, as follows:

(a) that the City is duly organized and validly existing and has the power and authority to enter into the Lease and to carry out the terms of the Lease and to do all other acts necessary or advisable to consummate and effectuate the transaction contemplated by the Lease and to carry out its obligations thereunder.

(b) that the City has authorized the execution and delivery of the Lease and has or will do or cause to be done all things necessary to preserve and keep in full force and effect its existence; that the performance of the City's obligations thereunder have been duly and validly authorized and approved under all laws and regulations and procedures applicable to the City; that the consent of all necessary persons or bodies have been obtained and duly and validly executed and delivered; and that the Lease constitutes a valid, legal and binding obligation of the City enforceable against the City in accordance with its terms.

(c) that the Rental Payments and additional rent payable under the Lease do not exceed any limitation imposed by law, and that such rentals are not such as may reasonably be expected to require the City to levy taxes in excess of any levy or budget limit; that the City shall continue to be responsible to raise funds to pay and to take all actions required to provide funds to make the Rental Payments and pay any additional rent as required in the Lease from any power and source lawfully available to it; and that the City further covenants and agrees that throughout the term of the Lease it will observe all budget and spending limitations now or hereafter imposed by law in such a manner that a sufficient portion of its tax levy or other money shall be lawfully available to pay all rentals due under the Lease.

(d) that the City will refrain from using, and/or prohibit the use of, any proceeds from the sale of the Certificates or any portion of the cash rentals in any manner that would cause either the Lease or any Certificate, which at the time of the issuance thereof was not subject to treatment as an "arbitrage bond," as defined in the Code, to be subject to such treatment under the Code so long as the Lease or any Certificates are outstanding.

Concerning the Equipment

Use and Maintenance of the Equipment. The City will use the Leased Property with due care and for the purpose for which it is intended. The City will maintain the Leased Property in good repair,

condition and working order and will furnish all parts and services required therefor, all at its expense. All such parts when furnished shall immediately become part of the Leased Property for all purposes of the Lease.

Exchange and Disposition of the Leased Property. The City may sell, trade in, exchange or otherwise dispose of any item constituting a part of the Leased Property without any responsibility or accountability to the Lessor therefor, provided that the City substitutes and installs anywhere in the City other property or equipment having equal or greater market value (but not necessarily the same function) in the operation of the City. All such substituted property or equipment shall be free of all liens and encumbrances (other than the lien of the Lease), shall be and become part of the Leased Property, and shall be held by the City on the same terms and conditions as items originally comprising the Leased Property. The City will pay any costs (including reasonable counsel fees) incurred in subjecting to the lien of the Lease any items of equipment or other property that under the provision of this paragraph are to become a part of the Leased Property or in releasing such property or equipment from the lien of the Lease. The City will not remove or permit the removal of any of the Leased Property from the City's control, except in accordance with the provisions of this paragraph.

The eligibility of the Leased Property to be released from the lien of the Lease shall be evidenced by a certificate signed by the City and delivered to the Lessor, confirming the City's compliance with the forgoing paragraph. Upon receipt of such certificates from time to time, the Lessor shall promptly execute and deliver to the City such partial releases, bills of sale and other documents as may be required to vest title to the items of Leased Property so released, free of the lien of any security interest provided for in the Lease, or other purchaser or recipient of such Leased Property.

Title. Title to the Leased Property shall be vested in the City, and the City has granted to the Lessor a security interest in the Leased Property until such time as all obligations of the City thereunder have been satisfied and discharged. The City covenants that it will do, execute, acknowledge, deliver and file of record, or cause to be done, executed, acknowledged, delivered and filed of record, such appropriate Nebraska Uniform Commercial Code ("U.C.C.") financing and continuation statements as may be required by law in order to create, vest and perfect in favor of the Lessor a U.C.C. security interest in and to the Leased Property. Upon the termination of the Lease, if the City has made all the payments due to the Lessor under the terms of the Lease, the Lessor will release and discharge such financing and continuation statements of record and shall provide the City with such other evidence as the City shall reasonably request evidencing that the Leased Property is free and clear of all liens and encumbrances, except any encumbrances permitted pursuant to the provisions of the Lease or caused by default of the City thereunder. The Leased Property shall remain personal property regardless of its attachment to realty, and the City agrees to take such action at its expense as may be necessary to prevent any third party from acquiring any interest in the Leased Property as a result of its attachment to realty.

Liens

The City has covenanted to keep the Leased Property free and clear of all levies, liens and encumbrances except those created under the Lease. The City has further covenanted to comply with all laws and regulations relating to the Leased Property and its use and shall promptly pay, if and when due, all sales, use, property, excise and other taxes and all license and registration fees now or hereafter imposed by any governmental body or agency upon the Leased Property or its use or the rentals thereunder excluding, however, any taxes on or measured by the Lessor's net income. Upon request by the Lessor, the City is required by the Lease to prepare and file all tax returns relating to taxes for which the City is responsible thereunder which the City is permitted to file under the laws of the applicable taxing jurisdiction.

Insurance

The City shall obtain and maintain on or with respect to the Leased Property at its own expense (1) liability insurance against liability for bodily injury and (2) property damage with a minimum limit of

\$1,000,000 combined single limit and physical damage insurance insuring against loss or damage to the Leased Property in an amount not less than the full replacement value of the Leased Property. The City shall furnish the Lessor with a certificate of insurance evidencing the issuance of a policy or policies to the City in at least the minimum amounts required in the Lease, naming the Lessor as an additional insured thereunder for the liability coverage and as loss payee for the property damage coverage. Each such policy shall be in such form and with such insurers as may be satisfactory to the Lessor, and shall contain a clause requiring the insurer to give to the Lessor at least 10 days prior written notice of any alteration in the terms of such policy or the cancellation thereof, and a clause specifying that no action or misrepresentation by the City shall invalidate such policy. The Lessor shall be under no duty to ascertain the existence of or to examine any such policy or to advise the City in the event any such policy shall not comply with the requirements of the Lease. In the event that the City has been permitted to self-insure, the City will furnish the Lessor with a letter or certificate to such effect.

Loss, Damage or Destruction

In the event the Leased Property shall become lost, stolen, destroyed, damaged beyond repair or rendered permanently unfit for use for any reason, or in the event of condemnation or seizure of the Leased Property, the City shall promptly pay to the Registrar for the account of the Lessor the amount of all rent and other amounts payable by the City thereunder due but unpaid at the date of such payment plus such amount as shall be necessary to provide for the payment of the principal of and interest on the Certificates to maturity or earlier redemption as shall be determined by the City. Upon payment of such amount to the Registrar, the Leased Property shall become the property of the City, the Lessor will transfer to the City, without recourse or warranty, all of the Lessor's right, title and interest therein, and the rent thereunder shall terminate. The City shall pay any sales and use taxes due on such transfer. Any insurance or condemnation proceeds received shall be credited to the City's obligation under this paragraph and the City shall be entitled to any surplus.

Events of Default

Under the Lease, the term **"Event of Default"** means the occurrence of any one or more of the following events:

- (a) the City shall fail to make each Rental Payment when due;
- (b) the City shall fail to observe or perform any other agreement to be observed or performed by the City thereunder and the continuance thereof for 10 calendar days following written notice thereof by the Lessor to the City;
- (c) the City makes an assignment for the benefit of creditors;
- (d) the City shall voluntarily file, or have filed against it involuntarily, a petition for liquidation, reorganization, adjustment of debt, or similar relief under the federal Bankruptcy Code or any other present or future federal or state bankruptcy or insolvency law, or a trustee, receiver, or liquidator shall be appointed of it or all or a substantial part of its assets; and
- (e) an event of default shall occur under any other obligation of the City (or an assignee of the City) owed to the Lessor (or an assignee of the Lessor).

Damages and Remedies

The Lessor and the City have agreed that the Lessor's damages suffered by reason of an Event of Default are uncertain and not capable of exact measurement at the time the Lease is executed because the value of the Leased Property at the expiration of the Lease is uncertain, and therefore have agreed that the **"Lessor's Loss"** as of any date shall be the sum of the following: (a) the amount of all rent and other amounts payable by the City thereunder due but unpaid as of such date plus (b) such amount as shall be

necessary to provide for the payment of the principal of and interest on the Certificates to maturity or earlier redemption as shall be determined by the Lessor.

Upon the occurrence of an Event of Default and at any time thereafter, the Lessor may exercise any one or more of the remedies listed in (1) through (5) below as the Lessor in its sole discretion may lawfully elect; provided, however, that upon the occurrence of an Event of Default specified in subsection (d) of “**Events of Default**” above, an amount equal to the Lessor’s Loss as of the date of such occurrence shall automatically be and become immediately due and payable without notice or demand of any kind.

(1) The Lessor may, by written notice to the City, terminate the Lease and declare an amount equal to the Lessor’s Loss as of the date of such notice to be immediately due and payable, and the same shall thereupon be and become immediately due and payable without further notice or demand, and all rights of the City to use the Leased Property shall terminate but the City shall be and remain liable as provided in this subsection. The City shall at its expense promptly deliver the Leased Property to Lessor at a location or locations designated by the Lessor. The Lessor may also enter upon the premises where the Leased Property is located and take immediate possession of and remove the same with or without instituting legal proceedings.

(2) The Lessor may proceed by appropriate court action to enforce performance by the City of the applicable covenants of the Lease or to recover, for breach of the Lease, the Lessor’s Loss as of the date the Lessor’s Loss is declared due and payable thereunder; provided, however, that upon recovery of the Lessor’s Loss from the City in any such action without having to repossess and dispose of the Leased Property, the Lessor shall transfer the Leased Property to the City at its then location upon payment of any additional amount due under subsections (3), (4) or (5) below.

(3) In the event the Lessor repossesses the Leased Property, the Lessor shall either retain the Leased Property in full satisfaction of the City’s obligation thereunder or sell or lease each item of Leased Property in such manner and upon such terms as the Lessor may in its sole discretion determine. The proceeds of such sale or lease shall be applied to reimburse the Lessor for the Lessor’s Loss and any additional amount due under subsections (4) or (5) below. The Lessor shall be entitled to any surplus and the City shall remain liable for any deficiency. For purposes of this subsection, the proceeds of any lease of all or any part of the Leased Property by the Lessor shall be the amount reasonably assigned by the Lessor as the cost of such Leased Property in determining the rent under such Lease.

(4) The Lessor may recover interest on the unpaid balance of the Lessor’s Loss from the date it becomes payable until fully paid at the rate of 10% per annum.

(5) The Lessor may exercise any other right or remedy available to it by law or by agreement, and may in any event recover legal fees and other expenses incurred by reason of an Event of Default or the exercise of any remedy thereunder, including expenses of repossession, repair, storage, transportation and disposition of the Leased Property.

No remedy given under the Lease is intended to be exclusive, and each shall be cumulative but only to the extent necessary to permit the Lessor to recover amounts for which the City is liable thereunder. No express or implied waiver by the Lessor of any Event of Default shall constitute a waiver of any other Event of Default.

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE**, dated August 25, 2005 (the “**Disclosure Certificate**”), is executed and delivered by the **CITY OF LINCOLN, NEBRASKA** (the “**City**”).

RECITALS

1. This Disclosure Certificate is executed and delivered by the City in connection with the issuance of \$1,785,000 aggregate principal amount of its Certificates of Participation – Lease Rentals (Series 2005), dated the date of delivery (August 25, 2005) thereof (the “**Certificates**”). The Certificates are being issued pursuant to a Lease-Purchase Agreement dated August 25, 2005 (the “**Lease**”), the execution and delivery of which was approved by Ordinance No. 18585 duly passed and adopted by the City Council on August 8, 2005, and approved by the Mayor on August 11, 2005 (the “**Ordinance**”).

2. The City is executing and delivering this Disclosure Certificate for the benefit of the Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule 15c2-12 of the Securities and Exchange Commission (the “**Rule**”). The City is the only “obligated person” with responsibility for continuing disclosure under the Rule.

The City covenants and agrees as follows:

Section 1. Definitions. For purposes of this Disclosure Certificate, the following capitalized terms shall have the following meanings:

“**Annual Report**” means any annual report provided by the City pursuant to, and as described in, **Sections 2 and 3** hereof.

“**Beneficial Owner**” means any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

“**Central Post Office**” means DisclosureUSA, any successor thereto, or any other conduit entity recognized, authorized or approved by the Securities and Exchange Commission for the submission of Annual Reports and Material Events notices to the Repositories. The Central Post Office currently approved by the Securities and Exchange Commission is set forth on **Exhibit A** attached hereto.

“**Dissemination Agent**” means the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City.

“**Material Events**” means any of the events listed in **Section 4(a)** hereof.

“**National Repository**” means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in **Exhibit A**.

“**Participating Underwriter**” means any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“**Repositories**” means each National Repository and each State Repository, if any.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” means the State of Nebraska.

“State Repository” means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 2. Provision of Annual Reports.

(a) The City shall, not later than May 1 of each year, commencing May 1, 2006, provide to the Repositories an Annual Report that is consistent with the requirements of **Section 3** hereof. The Annual Report may be submitted as a single document or as separate documents comprising a single package, and may include by reference other information as provided in **Section 3** hereof; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Material Event under **Section 4(c)** hereof.

(b) If the City is unable to provide the Annual Report to each Repository by the date required in **Section 2(a)** hereof, the City shall send a notice to each Repository in substantially the form indicated by **Exhibit B** attached hereto.

(c) The City shall:

(1) determine each year prior to the date for providing the Annual Report the name and address of each Repository (unless the Annual Report is filed through the Central Post Office), and

(2) certify that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date that it was provided and listing each Repository (or the Central Post Office if the Annual Report was filed through it) to which the Annual Report was provided.

Section 3. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available at the time the Annual Report is required to be filed pursuant to **Section 2(a)** hereof, the Annual Report shall contain unaudited financial statements similar to the audited financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they shall become available.

(b) Such financial and operating data as the City customarily provides in its Comprehensive Annual Financial Report.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the City is an “obligated person” (as defined by the Rule), which have been provided to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 4. Reporting of Material Events.

(a) Pursuant to the provisions of this **Section 4** hereof, the City shall give, or cause to be given, notice of the occurrence of any of the following events (each a “**Material Event**”) with respect to the Certificates, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) modifications to rights of owners of the Certificates;
- (4) optional, contingent or unscheduled redemption of the Certificates;
- (5) defeasances;
- (6) rating changes;
- (7) adverse tax opinions or events adversely affecting the tax-exempt status of the Certificates;
- (8) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (9) unscheduled draws on credit enhancements reflecting financial difficulties;
- (10) substitution of credit or liquidity providers, or their failure to perform;
- (11) release, substitution or sale of property securing repayment of the Certificates.

(b) Whenever the City obtains knowledge of the occurrence of a Material Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City determines that knowledge of the occurrence of a Material Event would be material under applicable federal securities laws, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository. Notwithstanding the foregoing, notice of Material Events described in **Section 4(a)(4)** and **Section 4(a)(5)** hereof need not be given under this **Section 4(c)** any earlier than notice (if any) of the underlying event is given to Beneficial Owners of affected Certificates pursuant to the Ordinance.

Section 5. Central Post Office. The City may use the Central Post Office for the submission of Annual Reports and Material Events notices for so long as there is any Central Post Office recognized, authorized or approved by the Securities and Exchange Commission. Submission of an

Annual Report or a Material Events notice by the City to the Central Post Office shall be deemed to satisfy the City's obligations under this Disclosure Certificate with respect to that Annual Report or Material Events Notice unless the City has actual notice that the Central Post Office has failed to deliver the Annual Report or Material Event Notice to the Repositories.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Material Event under **Section 4(c)** hereof.

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon 30-days prior written notice to the City. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report (including without limitation the Annual Report) prepared by the City pursuant to this Disclosure Certificate. The initial Dissemination Agent is the City.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that Gilmore & Bell, P.C., Lincoln, Nebraska, or other counsel experienced in federal securities law matters provides the City and the Dissemination Agent with its written opinion that the undertaking of the City contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Disclosure Certificate.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (a) notice of such change shall be given in the same manner as for a Material Event under **Section 4(c)** hereof and (b) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause

the City to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the City under this **Section 11** shall survive resignation or removal of the Dissemination Agent and payment of the Certificates. The City shall pay the fees, charges and expenses of the Dissemination Agent in connection with its administration of this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and the Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Section 13. Severability. If any provision in this Disclosure Certificate, the Ordinance or the Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument. Copies, facsimiles, electronic files and other reproductions of original documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

Section 15. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State of Nebraska.

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DATED: August 25, 2005

CITY OF LINCOLN, NEBRASKA

By: _____
Don Herz, Finance Director

EXHIBIT A

NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORIES

Bloomberg Municipal Repository

Bloomberg Business Park
100 Business Park Drive
Skillman, New Jersey 08558-3629
Phone: (609) 279-3225
Fax: (609) 279-5962(3) or (800) 395-9403
E-Mail: Munis@Bloomberg.com

Standard & Poor's Securities Evaluations, Inc.

Repository Service
55 Water Street
45th Floor
New York, New York 10041-0003
Phone: (212) 438-4595
Fax: (212) 438-3975
E-Mail: nrmsir_repository@sandp.com

FT Interactive Data

Attn: NRMSIR
100 William Street
15th Floor
New York, New York 10038
Phone: (212) 771-6999 or (800) 689-8466
Fax: (212) 771-7390 (Secondary Market
Information)
Fax: (212) 771-7391 (Primary Market
Information)
E-Mail: NRMSIR@ftid.com

DPC Data Inc.

One Executive Drive
Fort Lee, New Jersey 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

CENTRAL POST OFFICE

Electronic submissions:

www.DisclosureUSA.org

Paper submissions

(permitted through December 31, 2007):

Mailing Address:

DisclosureUSA
P.O. Box 684667
Austin, Texas 78768-4667

Physical Address:

Disclosure USA
600 West 8th Street
Austin, Texas 78701

EXHIBIT B

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: **City of Lincoln, Nebraska**

Name of Issue: **Certificates of Participation – Lease Rentals (Series 2005)**

Date of Issuance: **August 25, 2005**

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by **Section 2** of the Continuing Disclosure Certificate dated August 25, 2005. The City anticipates that the Annual Report will be filed by _____, 20____.

DATED: _____

CITY OF LINCOLN, NEBRASKA

APPENDIX D

BOOK-ENTRY SYSTEM

BOOK-ENTRY SYSTEM

Generally

DTC will act as securities depository for the Certificates. Initially, ownership of one fully registered Certificate for each maturity of the Certificates, as set forth on the cover hereof, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co., as nominee for DTC. Ownership interests in the Certificates will be available to purchasers only through a book-entry system (the **"Book-Entry System"**) maintained by DTC. The following discussion will not apply to Certificates if issued in certificated form. See **"Discontinuance of Book-Entry System."**

DTC and Its Participants

DTC, the world's largest depository, is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants (the **"Direct Participants"**) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (**"DTCC"**). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the **"Indirect Participants;"** Direct Participants and Indirect Participants are referred to together as **"DTC Participants"**). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchase of Ownership Interests

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit with respect to Certificates in the records of DTC. The ownership interest of each actual purchaser of each Certificate (the **"Beneficial Owner"**) will be recorded through the records of the Direct Participant and Indirect Participant through which the purchase is made. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive a written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Participants, acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Certificates, except in the event use of the book-entry system for the Certificates is discontinued as specifically provided in the Lease.

Each person for whom a Participant has an interest in the Certificates, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant and may desire to make arrangements with such Participant to have all notices of redemption and other communications with respect to the Certificates that may affect such person forwarded in writing by such Participant and to be notified of all interest payments. THE CITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (a) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (b) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE CERTIFICATES; (c) THE DELIVERY BY ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE LEASE- TO BE GIVEN TO CERTIFICATE HOLDERS; (d) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE CERTIFICATES; OR (e) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS CERTIFICATE HOLDER.

Payments of Principal or Redemption Price and Interest

So long as any Certificate is registered in the name of DTC's nominee, all payments of the principal or redemption price of and interest on such Certificate will be made to DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Registrar, on the payable date in accordance with their respective holdings shown on the records of DTC. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Registrar or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal or redemption price of and interest on the Certificates to DTC is the responsibility of the City and the Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of DTC Participants.

Notices

Any references in this Official Statement to notices or other communications to be provided to Registered Owners by the City or the Registrar will be given only to DTC. Conveyance of notices and other communications by DTC or Direct Participants, by Direct Participants to Indirect Participants, and by DTC Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Neither the City nor the Registrar will have any responsibility or obligation to assure that any such notice is forwarded by DTC to the DTC Participants or by any DTC Participant to the Beneficial Owner.

Redemption notices shall be sent to DTC. If less than all of the Certificates are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Certificates to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Transfers and Exchanges of Beneficial Ownership Interests

Transfers of beneficial ownership interests in the Certificates will be accomplished by book entries made by DTC and the Participants who act on behalf of the Beneficial Owners. For every transfer and exchange of the Certificates, the Registrar, DTC and the Participants may charge the Beneficial Owner a sum sufficient to cover any tax, fee or other governmental charge required to be paid with respect thereto and may charge a sum sufficient to pay the cost of preparing and authenticating each new Certificate.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's record reflect only the identity of the Direct Participants to whose accounts the Certificates are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of Certificates

Registered ownership of the Certificates, or any portions thereof, may not be transferred on the books of the Registrar except:

- (a) To any successor of DTC or its nominees;
- (b) To any substitute depository designated by the City upon the resignation or termination of DTC or its successor (or any substitute depository or its successor) from its functions as depository; or
- (c) To any person, upon discontinuance of the Book-Entry System as described below.

The City and the Registrar shall be entitled to treat the owner of the Certificates (initially, Cede & Co.) as the absolute owner thereof for all purposes of the Lease and any applicable laws, notwithstanding any notice to the contrary received by any of them. The City and the Registrar will have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any Beneficial Owners of the Certificates. Neither the City nor the Registrar will have any responsibility or obligation, legal or otherwise, to the Beneficial Owners or to any other party including DTC or its successor (or substitute depository or successor), except to the owners of any Certificate as shown on the registration books of the Registrar. So long as all Certificates are registered in the name of Cede & Co., the City and the Registrar are to cooperate with DTC or its nominee in effecting payment of the principal or redemption price of and interest on the Certificates by arranging for payment in such manner that funds for such payments are properly identified and are made to DTC when due.

Neither the City nor the Registrar shall be required to transfer or exchange Certificates from the Record Date through and including the next succeeding interest or principal payment date for the Certificates or from the Record Date next preceding any selection of Certificates to be redeemed or thereafter until after the first mailing of any notice of redemption; or to transfer or exchange any Certificates called for redemption.

Discontinuance of Book-Entry System

DTC's services with respect to the Certificates may be discontinued or terminated at any time under the following circumstances:

(a) DTC may determine to discontinue providing its services with respect to the Certificates at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law.

(b) The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Certificates if the City determines that DTC is unable to discharge its responsibilities with respect to the Certificates or that a continuation of the requirement that all of the outstanding Certificates be registered in the registration books kept by the Registrar in the name of Cede & Co., or any other nominee of DTC, is not in the best interests of the Beneficial Owners of the Certificates.

In the event that DTC's services are so discontinued or terminated because it is unwilling or is determined to be unable to discharge its responsibilities, and no substitute securities depository willing to undertake the functions of DTC under the Lease Purchase Agreement can be found which, in the opinion of the City, is willing and able to undertake such functions upon reasonable and customary terms, or in the event it is so determined that continuation of the system of book-entry transfers is not in the best interests of the Beneficial Owners, the City is obligated to deliver Certificate certificates, at the expense of the Beneficial Owners, as described in the Lease Purchase Agreement.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement, it should be understood that while the Certificates are in the Book-Entry System, references in other sections of this Official Statement to owners should be read to include the person for whom the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the City or the Registrar will be given only to DTC.

The foregoing information regarding DTC and the Book-Entry System is based solely on information provided by DTC. No representation is made by the City or the Underwriter as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

APPENDIX E

**FORM OF OPINION OF
SPECIAL TAX COUNSEL**

[FORM OF OPINION OF SPECIAL TAX COUNSEL]

August 25, 2005

Ameritas Investment Corp.
5900 "O" Street, First Floor
Lincoln, NE 68510

RE: Lease-Purchase Agreement dated August 25, 2005 (the "Lease") by and between Union Bank & Trust Company (the "Lessor") and the City of Lincoln, Nebraska (the "City")

Ladies and Gentlemen:

We have acted as special tax counsel in connection with the Lease described above and in connection with the execution and delivery of the City of Lincoln, Nebraska Certificates of Participation - Lease Rentals (Series 2005) (the "Certificates"), evidencing a direct and proportionate interest in payments (the "Rental Payments") to be made by the City under the Lease. In such capacity, we have reviewed copies of the (a) Lease and the exhibits attached thereto, (b) the proceedings of the City relating to the execution and delivery of the Lease, (c) a Federal Tax Certificate dated August 25, 2005 executed by the City, and (d) certain other related documents and matters.

Pursuant to the Lease, the Lessor has agreed to lease to the City the personal property described on Exhibit A attached thereto. The Lease provides that it will be in effect for a term commencing August 25, 2005 and ending August 15, 2015, unless earlier terminated in accordance with its terms. Pursuant to the Lease, the City has undertaken to pay the Lessor the Rental Payments at the times and in the amounts set forth in Section 2(c) of the Lease and has further agreed to assign its right, title and interest in and to the Contracts (as defined in the Lease) to the Lessor.

The Distributions (as defined in the Lease) payable to the beneficial owners of the Certificates are payable solely from amounts paid by the City under the Lease. The City has the power and is obligated to levy ad valorem taxes, subject to the budget and levy limitations described in Sections 13-519 and 77-3442, Reissue Revised Statutes of Nebraska, as amended, respectively, sufficient in amount to pay such Rental Payments. In the Lease, the City has covenanted that the Rental Payments and additional rent payable under the Lease do not exceed any limitation imposed by law, and that such rentals are not such as may reasonably be expected to require the City to levy taxes in excess of any levy or budget limit. The City has further covenanted and agreed that throughout the term of the Lease it will observe all budget and spending limitations now or hereafter imposed by law in such a manner that a sufficient portion of its tax levy or other money shall be lawfully available to pay all rentals due under the Lease.

Based upon our examination of the aforesaid documents, and assuming the genuineness of the signatures thereon and the accuracy of the facts and conclusions stated therein, we are of the opinion (a) that the City is a body corporate and governmental subdivision and instrumentality of the State of Nebraska (the "State") and (b) that the Lease constitutes a legal, valid and binding obligation of the City, enforceable in accordance with its terms. Further, based upon federal law in effect on the date hereof, it is our opinion that the amount of each Rental Payment designated as and comprising interest (including any original issue discount properly allocable to an owner) as set forth in Section 2(c) of the Lease is excludable from gross income for federal or State income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions set forth herein are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the date of issuance of the Certificates in order that the interest portion of the Rental Payments be, or continue to be, excludable from gross income for federal or State income tax purposes. Failure of the City to comply with these requirements may cause the inclusion of the interest portion of the Rental Payments in gross income for federal and State income tax purposes retroactive to the date of issuance of the Certificates. We express no opinion regarding other tax consequences arising with respect to the Lease, the Rental Payments or the Certificates.

We express no opinion as to compliance with State or federal securities laws and regulations applicable to disposition of rights under the Lease to any investor.

Very truly yours,